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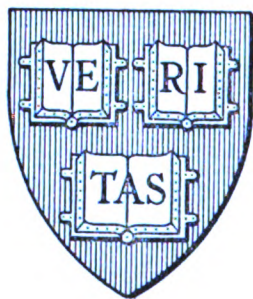
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PROCEEDINGS OF THE FORTY-FIFTH  
ANNUAL CONVENTION

OF THE

AMERICAN BANKERS  
ASSOCIATION

AND

ANNUAL PROCEEDINGS OF THE TRUST COMPANY SECTION,  
SAVINGS BANK SECTION, CLEARING HOUSE SECTION,  
NATIONAL BANK SECTION, STATE BANK SEC-  
TION, AND SUMMARY OF PROCEEDINGS  
OF AMERICAN INSTITUTE OF  
BANKING AND STATE SEC-  
RETARIES SECTIONS

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*HELD AT ST. LOUIS, MISSOURI*  
*SEPTEMBER 29 to OCTOBER 2, 1919*

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NEW YORK

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1919

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*The Association*



WYKHOOP HALLENBECK CRAWFORD COMPANY, NEW YORK

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## DISCLAIMER

At a regularly appointed meeting of the Executive Council of the Association, held at the Windsor Hotel, Saratoga Springs, on September 2, 1890, the following resolution was adopted:

*"Resolved, That the General Secretary be directed to insert this resolution as a preface in the annual printed proceedings, disclaiming the responsibility of the Association for the opinions expressed in any of the addresses or papers printed, unless such opinions have been endorsed by special action of the Council and Convention."*

## EXTRACT FROM THE CONSTITUTION

### RESOLUTIONS

#### ARTICLE VII

Resolutions or subject matter to be presented for the consideration and action of the general convention, other than such as may involve points of order, or procedure, or privilege, or matters of courtesy, shall be filed with the General Secretary at least fifteen days before the sessions of the general convention, and shall be submitted by the General Secretary to the Executive Council at a meeting of the Council held preceding such convention, for the approval or disapproval of the Executive Council, and shall be reported by the Executive Council to the general convention with such approval or disapproval under the appropriate order of business, for the consideration and action of the general convention, but any delegate desiring to submit any such resolution or subject matter in any session of the general convention may present such resolution or subject matter under the appropriate order, and the same shall be read for the information of the convention, whereupon the presiding officer shall, without debate, submit the following question to the convention: "Shall the resolution (or the subject matter proposed, as the case may be) be considered by the convention?" If the question shall be determined affirmatively by a vote of a majority of the members present in convention and voting, the resolution or subject matter shall be in regular order and shall be considered and acted upon accordingly, *Provided*, that this Section shall not apply to any proposed amendment of the Constitution, or By-Laws.



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**1919-1920**

Organized July 20, 21, 22, 1875.

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R. S. HECHT, President Hibernia Bank & Trust Co., New Orleans, La.  
A. C. SMITH, President City National Bank, Clinton, Iowa.  
H. B. WILCOX, Vice-President Merchant-Mechanics First National Bank, Baltimore, Md.  
BRECKINRIDGE JONES, President Mississippi Valley Trust Company, St. Louis, Mo.  
S. B. MONTGOMERY, President State Savings Loan & Trust Co., Quincy, Ill.  
PHILIP STOCKTON, President Old Colony Trust Company, Boston, Mass.  
J. H. MASON, President Commercial Trust Company, Philadelphia, Pa.  
H. W. MARTIN, Vice-President Lowry National Bank, Atlanta, Ga.  
W. S. Webb, Cashier Missouri Savings Association Bank, Kansas City, Mo.  
J. D. GILLESPIE, Cashier Tenison National Bank, Dallas, Texas.  
JESS McNISH, President American Bank, Sidney, Neb.  
FRANCIS H. SISSON, Vice-President Guaranty Trust Co., New York, N. Y.  
CHARLES A. HINSCH, President Fifth-Third National Bank, Cincinnati, Ohio.



**COMMITTEES OF THE ASSOCIATION—CONTINUED**  
**COMMITTEE TO COOPERATE WITH A COMMITTEE OF THE**  
**CHAMBER OF COMMERCE OF THE UNITED STATES**  
**REGARDING FOREIGN EXCHANGE.**

**JOHN J. ARNOLD**, Bank of Italy, San Francisco, Cal., *Chairman*.

**JAMES D. HOGG**, Chairman of the Board, Union National Bank, Seattle, Wash.

**W. P. KRETSCHMAR**, President Commercial Savings Bank, Greenville, Miss.

**NATIONAL COUNCILLOR FOR AND REPRESENTING THE**  
**AMERICAN BANKERS ASSOCIATION ON THE CHAM-**  
**BER OF COMMERCE OF THE UNITED STATES**

**RICHARD S. HAWES**, Vice-President First National Bank, St. Louis, Mo.

**COMMITTEE OF SEVEN**

**WILLIAM GEORGE**, President Old Second National Bank, Aurora, Ill., *Chairman*.

**M. A. GRANTTINGER**, Secretary Illinois Bankers Association, 208 S. La-Salle Street, Chicago, Ill.

**W. F. KEYSER**, Secretary Missouri Bankers Association, Sedalia, Mo.

**HAYNES McFADDEN**, Secretary Georgia Bankers Association, Candler Bldg., Atlanta, Georgia.

**P. W. GOSSEL**, President Commercial National Bank, Kansas City, Kan.

**JOHN W. STALEY**, President Peoples State Bank, Detroit, Mich.

**GEORGE W. HYDE**, Secretary Massachusetts Bankers Association, c/o First National Bank, Boston, Mass.

**COMMITTEE ON COMMERCE AND MARINE**

**JOHN McHUGH**, Vice-President Mechanics & Metals National Bank, New York, N. Y., *Chairman*.

**LEWIS E. PIERSON**, Chairman of Board, Irving National Bank, New York, N. Y.

**CHARLES H. SABIN**, President Guaranty Trust Company, New York, N. Y.

**FRED I. KENT**, Vice-President Bankers Trust Company, New York, N. Y.

**DANIEL G. WING**, President First National Bank, Boston, Mass.

**ARTHUR REYNOLDS**, Vice-President Continental & Commercial National Bank, Chicago, Ill.

**WILLIAM A. LAW**, President First National Bank, Philadelphia, Pa.

**F. O. WATTS**, President First National Bank, St. Louis, Mo.

**CHARLES A. HINSCH**, President Fifth-Third National Bank, Cincinnati, Ohio.

COMMITTEES OF THE ASSOCIATION—CONTINUED  
COMMITTEE ON COMMERCE AND MARINE—CONTINUED

- ROBERT F. MADDOX, President Atlanta National Bank, Atlanta, Ga.  
THOS. B. McADAMS, Vice-President Merchants National Bank, Richmond, Va.  
RICHARD S. HAWES, Vice-President First National Bank, St. Louis, Mo.  
JAMES J. FAGAN, Vice-President Crocker National Bank, San Francisco, Cal.  
WALDO NEWCOMER, President National Exchange Bank, Baltimore, Md.  
JOHN L. HAMILTON, President Equitable Securities Company, Columbus, Ohio.  
W. F. COLLINS, Five Nassau Street, New York, N. Y., Secretary.

COMMITTEE ON EDUCATION

- R. O. KAUFMAN, Vice-President and Cashier Union Bank & Trust Co. of Montana, Helena, Mont., *Chairman*.  
GARDNER B. PERRY, Vice-President National Commercial Bank, Albany, N. Y.  
WILLIAM B. HUGHES, Secretary Nebraska Bankers Association, Omaha, Neb.  
WILLIAM J. GRAY, Vice-President First and Old Detroit National Bank, Detroit, Mich.  
P. D. HOUSTON, President American National Bank, Nashville, Tenn.  
W. D. VINCENT, Vice-President Old National Bank, Spokane, Washington.  
VICTOR A. LERSNER, Comptroller Williamsburg Savings Bank, Brooklyn, N. Y.

COMMITTEE ON PUBLIC RELATIONS

- WILLIAM P. SHARER, President First National Bank, Zanesville, O., *Chairman*.  
PERCY H. JOHNSTON, Vice-President Chemical National Bank, New York, N. Y.  
H. L. REMMEL, President Bankers Trust Co., Little Rock, Ark.  
F. W. ELLSWORTH, Vice-President Hibernia Bank & Trust Co., New Orleans, La.  
E. E. CRABTREE, Vice-President F. G. Farroll & Co., Jacksonville, Ill.  
MILTON E. HOLDERNESS, Vice-President First National Bank, St. Louis, Mo.  
W. R. MOREHOUSE, Assistant Cashier Guaranty Trust & Savings Bank, Los Angeles, Cal.

# PERMANENT COUNCIL COMMITTEES

## INSURANCE COMMITTEE

### ONE-YEAR TERM

GEORGE A. HOLDERNESS, President Farmers Banking & Trust Co., Taboro, N. C., *Chairman*.

### TWO-YEAR TERM

L. E. SANDS, President First National Bank, Pittsburgh, Pa.

### THREE-YEAR TERM

JOHN R. WASHBURN, Vice-President Continental & Commercial National Bank, Chicago, Ill.

L. W. GAMMON, Five Nassau Street, New York, N. Y., *Secretary*.

## COMMITTEE ON STATE LEGISLATION

### ONE-YEAR TERM

M. A. TRAYLOR, President First Trust & Savings Bank, Chicago, Ill., *Chairman*.

BENJAMIN E. SMYTHE, Vice-President Liberty National Bank, New York, N. Y.

F. H. FARRINGTON, Brandon, Vt., Vice-President Rutland Savings Bank, Rutland, Vt.

JOHN T. DISMUKES, President First National Bank, St. Augustine, Fla.

### TWO-YEAR TERM

JOHN B. CLEMENT, Second Vice-President Central Trust Co., Camden, N. J.

L. A. BAKER, Cashier Manufacturers Bank, New Richmond, Wis.

CHARLES B. LEWIS, President Fourth National Bank, Macon, Ga.

F. J. BELCHER, JR., Vice-President First National Bank, San Diego, Cal.

### THREE-YEAR TERM

CHARLES S. MCCAIN, Vice-President Bankers Trust Co., Little Rock, Ark.

EDWARD BUDER, Vice-President and Treasurer Mercantile Trust Co., St. Louis, Mo.

J. POPE MATTHEWS, President Palmetto National Bank, Columbia, S. C.

W. P. ANDREWS, Cashier First National Bank, Ft. Worth, Texas.

## STATE LEGISLATIVE COUNCIL

M. A. TRAYLOR, President First Trust & Savings Bank, Chicago, Ill., *Chairman*.

## PERMANENT COUNCIL COMMITTEES—CONTINUED

### STATE LEGISLATIVE COUNCIL—CONTINUED

- ALABAMA:** E. C. MELVIN, President Selma National Bank, Selma.
- ARIZONA:** R. E. MOORE, Vice-President Valley Bank, Phoenix.
- ARKANSAS:** CHAS. S. MCCAIN, Vice-President Bankers Trust Co., Little Rock.
- CALIFORNIA:** F. J. BELCHER, JR., Vice-President First National Bank, San Diego.
- COLORADO:** THEO. G. SMITH, President International Trust Co., Denver.
- CONNECTICUT:** R. LAMOTTE RUSSELL, President Manchester Trust Co., S. Manchester.
- DELAWARE:** GEO. H. HALL, President Milford Trust Co., Milford.
- DISTRICT OF COLUMBIA:** C. J. BELL, President American Security & Trust Co., Washington.
- FLORIDA:** JOHN T. DISMUKES, President First National Bank, St. Augustine.
- GEORGIA:** CHAS. B. LEWIS, President Fourth National Bank, Macon.
- IDAHO:** WALTER E. MILLER, President First National Bank, Nampa.
- ILLINOIS:** M. A. TRAYLOR, President First Trust & Savings Bank, Chicago.
- INDIANA:** CHARLES W. CAMP, Room 38, State House, Indianapolis.
- IOWA:** GEORGE S. PARKER, President Livestock National Bank, Sioux City.
- KANSAS:** E. E. MULLANEY, President Farmers & Merchants Bank, Hill City.
- KENTUCKY:** J. K. WALLER, President Peoples Bank & Trust Company, Morganfield.
- LOUISIANA:** A. T. KAHN, Vice-President Commercial National Bank, Shreveport.
- MAINE:** E. S. KENNARD, Cashier Rumford National Bank, Rumford.
- MARYLAND:** JOHN W. ENNIS, Cashier Pocomoke City National Bank, Pocomoke City.
- MASSACHUSETTS:** GEO. A. MACDONALD, President Chicopee National Bank, Springfield.
- MICHIGAN:** A. G. BISHOP, President Genesee County Savings Bank, Flint.
- MINNESOTA:** CLIFF W. GRESS, Vice-President Citizens State Bank, Cannon Falls.
- MISSISSIPPI:** T. W. YATES, Vice-President Commercial Bank & Trust Co., Laurel.
- MISSOURI:** EDWARD BUDER, Vice-President and Treasurer Mercantile Trust Co., St. Louis.
- MONTANA:** RALPH O. KAUFMAN, Vice-President and Cashier Union Bank & Trust Co., Helena.
- NEBRASKA:** J. F. COAD, JR., President Packers National Bank, Omaha.

## PERMANENT COUNCIL COMMITTEES—CONTINUED

### STATE LEGISLATIVE COUNCIL—CONTINUED

- NEVADA: GEO. WINGFIELD, President Reno National Bank, Reno.
- NEW HAMPSHIRE: IRA F. HARRIS, Cashier Indian Head National Bank, Nashua.
- NEW JERSEY: JOHN B. CLEMENT, Second Vice-President Central Trust Co., Camden.
- NEW MEXICO: H. B. JONES, President First National Bank, Tucumcari.
- NEW YORK: BENJ. E. SMYTHE, Vice-President Liberty National Bank, New York, N. Y.
- NORTH CAROLINA: LEAKE S. COVINGTON, Cashier Farmers Bank, Rockingham.
- NORTH DAKOTA: E. BEISSBARTH, President First National Bank, Brinsmade.
- OHIO: I. M. TAGGART, President Merchants National Bank, Massillon.
- OKLAHOMA: T. H. DWYER, President Chickasha National Bank, Chickasha.
- OREGON: W. L. THOMPSON, President American National Bank, Pendleton.
- PENNSYLVANIA: J. W. B. BAUSMAN, President Farmers Trust Co., Lancaster.
- RHODE ISLAND: MICHAEL F. DOOLEY, President National Exchange Bank, Providence.
- SOUTH CAROLINA: J. POPE MATTHEWS, President Palmetto National Bank, Columbia.
- SOUTH DAKOTA: JOHN W. WADDEN, President Sioux Falls National Bank, Sioux Falls.
- TENNESSEE: FRED COLLINS, Vice-President Bank of Commerce & Trust Co., Memphis.
- TEXAS: W. P. ANDREWS, Cashier First National Bank, Ft. Worth.
- UTAH: W. S. MCCORNICK, President McCornick & Co., Salt Lake City.
- VERMONT: F. H. FARRINGTON, Brandon, Vice-President Rutland Savings Bank, Rutland.
- VIRGINIA: C. E. TIFFANY, President Fauquier National Bank, Warrenton.
- WASHINGTON: D. W. TWOHY, President Old National Bank, Spokane.
- W. VIRGINIA: H. W. CHADDOCK, Vice-President National Bank, of Fairmont, Fairmont.
- WISCONSIN: L. A. BAKER, Cashier Manufacturers Bank, New Richmond.
- WYOMING: GEO. W. PERRY, Vice-President Sheridan National Bank, Sheridan.

**PERMANENT COUNCIL COMMITTEES—CONTINUED**  
**COMMITTEE ON FEDERAL LEGISLATION**

**ONE-YEAR TERM**

**F. A. IRISH**, Vice-President First National Bank, Fargo, N. D.  
**T. W. YATES**, Vice-President Commercial Bank & Trust Company,  
Laurel, Miss.

**TWO-YEAR TERM**

**FRED COLLINS**, Vice-President Bank of Commerce & Trust Co., Mem-  
phis, Tenn., *Chairman*.  
**GEORGE E. BROCK**, President Home Savings Bank, Boston, Mass.

**THREE-YEAR TERM**

**C. H. McNIDER**, President First National Bank, Mason City, Iowa.  
**JOSEPH WAYNE, JR.**, President Girard National Bank, Philadelphia, Pa.

**FEDERAL LEGISLATIVE COUNCIL**

**FRED COLLINS**, Vice-President Bank of Commerce & Trust Co., Mem-  
phis, Tenn., *Chairman*.

**ALABAMA:** **E. C. MELVIN**, President Selma National Bank, Selma.

**ARIZONA:** **R. E. MOORE**, Vice-President Valley Bank, Phoenix.

**ARKANSAS:** **ROBERT NEILL**, Cashier Arkansas National Bank, Hot  
Springs.

**CALIFORNIA:** **J. M. HENDERSON, JR.**, President Sacramento Bank, Sacra-  
mento.

**COLORADO:** **J. M. B. PETRIKIN**, President First National Bank, Greeley.

**CONNECTICUT:** **R. LAMOTTE RUSSELL**, President Manchester Trust Co.,  
S. Manchester.

**DELAWARE:** **GEO. H. HALL**, President Milford Trust Co., Milford.

**DISTRICT OF COLUMBIA:** **C. J. BELL**, President American Security &  
Trust Co., Washington.

**FLORIDA:** **JOHN T. DISMUKES**, President First National Bank, St.  
Augustine.

**GEORGIA:** **E. C. SMITH**, Vice-President Griffin Banking Co., Griffin.

**IDAHO:** **WALTER E. MILLER**, President First National Bank, Nampa.

**INDIANA:** **ROBERT A. MORRIS**, Fairmont State Bank, Fairmont, Ind.

**ILLINOIS:** **ANDREW RUSSEL**, Vice-President Ayers National Bank,  
Jacksonville.

**IOWA:** **C. H. McNIDER**, President First National Bank, Mason City.

**KANSAS:** **GEO. A. GUILD**, Vice-President Central National Bank,  
Topeka.

**KENTUCKY:** **J. K. WALLER**, President Peoples Bank & Trust Co.,  
Morganfield.

**LOUISIANA:** **A. T. KAHN**, Vice-President Commercial National Bank,  
Shreveport.

**MAINE:** **E. S. KENNARD**, Cashier Rumford National Bank, Rumford.

## PERMANENT COUNCIL COMMITTEES—CONTINUED

### FEDERAL LEGISLATIVE COUNCIL—CONTINUED

- MARYLAND:** JOHN W. ENNIS, Cashier Pocomoke City National Bank, Pocomoke City.
- MASSACHUSETTS:** GEO. E. BROCK, President Home Savings Bank, Boston.
- MICHIGAN:** DUDLEY E. WATERS, President Grand Rapids National City Bank, Grand Rapids.
- MINNESOTA:** C. L. HANSEN, Vice-President First National Bank, Thief River Falls.
- MISSISSIPPI:** T. W. YATES, Vice-President Commercial Bank & Trust Co., Laurel.
- MISSOURI:** J. R. DOMINICK, President Traders National Bank Kansas City.
- MONTANA:** ROY J. COVERT, President Merchants National Bank, Billings.
- NEBRASKA:** J. F. COAD, JR., Packers National Bank, Omaha.
- NEVADA:** GEO. WINGFIELD, President Reno National Bank, Reno.
- NEW HAMPSHIRE:** IRA F. HARRIS, Cashier Indian Head National Bank, Nashua.
- NEW JERSEY:** ELWOOD S. BARTLETT, Cashier Atlantic City National Bank, Atlantic City.
- NEW MEXICO:** H. B. JONES, President First National Bank, Tucumcari.
- NEW YORK:** DELMER RUNKLE, President Peoples National Bank, Hoosick Falls.
- NORTH CAROLINA:** GEO. A. HOLDENESS, President Farmers Banking & Trust Co., Tarboro.
- NORTH DAKOTA:** F. A. IRISH, Vice-President First National Bank, Fargo.
- OHIO:** E. L. COEN, Vice-President Erie County Banking Co., Vermilion.
- OKLAHOMA:** GUY C. ROBERTSON, Cashier First National Bank, Lawton.
- OREGON:** W. L. THOMPSON, President American National Bank, Pendleton.
- PENNSYLVANIA:** JOSEPH WAYNE, JR., President Girard National Bank, Philadelphia.
- RHODE ISLAND:** MICHAEL F. DOOLEY, President National Exchange Bank, Providence.
- SOUTH CAROLINA:** J. POPE MATTHEWS, President Palmetto National Bank, Columbia.
- SOUTH DAKOTA:** H. L. HOPKINS, President Security Bank, Clark.
- TENNESSEE:** FRED COLLINS, Vice-President Bank of Commerce & Trust Co., Memphis.
- TEXAS:** J. W. BUTLER, Vice-President Texas Bank & Trust Co., Galveston.

## PERMANENT COUNCIL COMMITTEES—CONTINUED

### FEDERAL LEGISLATIVE COUNCIL—CONTINUED

UTAH: W. S. McCORNICK, President McCornick & Co., Bankers, Salt Lake City.

VERMONT: F. H. FARRINGTON, Brandon, Vt., Vice-President Rutland Savings Bank, Rutland.

VIRGINIA: C. E. TIFFANY, President Fauquier National Bank, Warrenton.

WASHINGTON: E. W. PURDY, President First National Bank, Bellingham.

WEST VIRGINIA: H. W. CHADDOCK, Vice-President National Bank of Fairmont, Fairmont.

WISCONSIN: WALTER KASTEN, Vice-President Wisconsin National Bank, Milwaukee.

WYOMING: GEO. W. PERRY, Vice-President Sheridan National Bank, Sheridan.

### COMMITTEE ON MEMBERSHIP

#### ONE-YEAR TERM

H. W. CHADDOCK, Vice-President National Bank of Fairmont, Fairmont, W. Va.

#### TWO-YEAR TERM

P. B. DOTY, Active Vice-President Gulf National Bank, Beaumont, Tex.

#### THREE-YEAR TERM

WILLIS D. LONGYEAR, Vice-President Security Trust & Savings Bank, Los Angeles, Cal.

### ADMINISTRATIVE COMMITTEE

RICHARD S. HAWES, Vice-President First National Bank, St. Louis, Mo., *Chairman*.

JOHN S. DRUM, President Savings Union Bank & Trust Co., San Francisco, Cal.

THOMAS B. McADAMS, Vice-President Merchants National Bank, Richmond Va.

ROBERT F. MADDOX, President Atlanta National Bank, Atlanta, Ga.

#### ONE-YEAR TERM

C. J. BELL, President American Security & Trust Co., Washington, D. C.

#### TWO-YEAR TERM

JOHN F. HAGEY, Vice-President First National Bank, Chicago, Ill.

#### *Representing Trust Company Section*

LYNN H. DINKINS, President Interstate Trust & Banking Co., New Orleans, La.



**PERMANENT COUNCIL COMMITTEES—CONTINUED**  
**ADMINISTRATIVE COMMITTEE—CONTINUED**

*Representing Savings Bank Section*

**S. FRED STRONG**, Treasurer Connecticut Savings Bank, New Haven, Conn.

*Representing National Bank Section*

**WALTER W. HEAD**, Vice-President Omaha National Bank, Omaha, Neb.

*Representing State Bank Section*

**J. W. BUTLER**, Vice-President Texas Bank & Trust Co., Galveston, Tex.

**FINANCE COMMITTEE**

**JOHN S. DRUM**, President Savings Union Bank & Trust Co., San Francisco, Cal., *Chairman*.

**HARRY M. RUBEY**, President Rubey National Bank, Golden, Colo., Treasurer of the Association.

**ONE-YEAR TERM**

**W. C. GORDON**, Vice-President Farmers Savings Bank, Marshall, Mo.

**J. W. B. BAUSMAN**, President Farmers Trust Co., Lancaster, Pa.

**HOMER A. MILLER**, President Iowa National Bank, Des Moines, Ia.

**TWO-YEAR TERM**

**ROME C. STEPHENSON**, President St. Joseph Loan & Trust Co., South Bend, Ind.

**A. M. GRAVES**, Cashier Red River National Bank, Clarksville, Tex.

**THREE-YEAR TERM**

**W. E. PURDY**, Assistant Cashier Chase National Bank, New York, N. Y.

**TOM HARTMAN**, Vice-President Producers State Bank, Tulsa, Okla.

**FRANK W. BLAIR**, President Union Trust Company, Detroit, Mich.

**PROTECTIVE COMMITTEE**

This Committee is composed of three members and under the Constitution their names are not made public.

**COMMITTEE ON LIBRARY**

**ONE-YEAR TERM**

**JULIEN H. HILL**, First Vice-President National State and City Bank, Richmond, Va., *Chairman*.

**TWO-YEAR TERM**

**J. D. PHILLIPS**, Vice-President Green Valley Bank, Green Valley, Ill.

**THREE-YEAR TERM**

**R. LAMOTTE RUSSELL**, President Manchester Trust Company, S. Manchester, Conn.

**PERMANENT COUNCIL COMMITTEES—CONTINUED**  
**JOURNAL COMMITTEE**

By action of the Executive Council, this is a secret committee of three members.

**COMMITTEE TO EDIT ANNUAL PROCEEDINGS**

This is a Special Committee Appointed by the President and Their Names are Not Made Public.

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# THE AMERICAN BANKERS ASSOCIATION

FORTY-FIFTH ANNUAL CONVENTION  
ST. LOUIS, MISSOURI

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TUESDAY, WEDNESDAY AND THURSDAY,  
SEPTEMBER 30-OCTOBER 1-2, 1919

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## FIRST DAY'S PROCEEDINGS

President Robert F. Maddox, president Atlanta National Bank, Atlanta, Georgia, called the forty-fifth annual convention of the American Bankers Association to order at ten o'clock a. m., Tuesday, September 30, at the Shubert-Jefferson Theatre, St. Louis, Mo. The proceedings were opened with an invocation by Rev. Ivan Lee Holt, pastor of St. John's Methodist Episcopal Church, South.

**PRESIDENT MADDOX:** The address of welcome will be delivered by a gentleman who needs no introduction to this Association. The pages of his history are filled with his splendid services for many years. I take pleasure in introducing our former President, who combines banks as well as he does many other good qualities, Mr. F. O. Watts.

(Applause.)

## ADDRESS OF WELCOME

F. O. WATTS

*Mr. Chairman, Ladies and Gentlemen:*

As president of the St. Louis Clearing House Association I was asked to write an expression of welcome to the convention of the American Bankers Association. When I attempted to do it my pen was hesitant

and I preferred rather to look into your eyes and express what is in the hearts of the people of St. Louis. It therefore becomes a most pleasant duty for me to welcome you as president of the Clearing House Association in behalf of the banks of St. Louis and its people. It is possible that the welcome comes a bit late, for you have been two days in St. Louis, and already you know the welcome which is felt by every man, woman and child with whom you have come in contact.

This convention is the third held in the City of St. Louis within a quarter of a century, and no other city in America has been so honored by the American Bankers Association in that time. Both of the previous conventions were epoch-making. The convention of 1896 was noteworthy because for the first time, by any association of men, there was adopted a resolution firmly and positively advocating the establishment of a gold standard for the United States of America.

Ten years later, in your convention of 1906, when the question of banking and currency reform was the live one, this Association authorized the formation of a Currency Commission and fortunately, gentlemen, that Currency Commission was organized and ready for the performance of its duties when the panic of 1907 came upon this country. In my judgment, it was due to the fact that the Currency Commission was working and doing its part in forming public opinion that from that panic there was created the public opinion which resulted in the enactment of the Federal Reserve Act.

I hope you will find the City of St. Louis a pleasant place to visit. I can testify it is the best place in which to live. I have the feeling that though the American Bankers Association, Mr. President, has upon many occasions shown its favor to St. Louis, it was as the result of a thought and an idea from a citizen of St. Louis that the Association was established. You have four times in your history honored citizens of St. Louis by election to the highest honors within your gift. You have oftener in the last twenty-five years come as the guests of this city, and yet I am reminded of the last line of that good old Methodist hymn, which says, "Many thousand favors, and yet we ask for more." I have the hope, Mr. President, that part of your deliberations at this convention will result in giving to St. Louis one further favor to one of its sons, and I confidently believe that as you confer that one the American Bankers Association will get value received. Gentlemen, I welcome you to St. Louis on behalf of the bankers and all of its citizens, and I hope your stay here may be pleasant. We have never heard but two criticisms of St. Louis; one is its foreign population and the other is its weather. We have exploded during the war period the idea that St. Louis had any foreign population—they are all Americans. (Applause.) We want to explode the idea that the St. Louis weather is not ideal. We had a design

in this day, for we have a circus tonight, and whoever heard of a circus being successful without having a warm day? (Applause.)

Gentlemen, we are glad you are here and we hope that you may enjoy yourselves to the fullest. I thank you, Mr. President. (Applause.)

**PRESIDENT MADDOX:** The response to the address of welcome will be delivered by our Second Vice-President, Mr. John S. Drum, of San Francisco, California. (Applause.)

## RESPONSE TO ADDRESS OF WELCOME

JOHN S. DRUM

*Mr. President, Mr. Watts, Ladies and Gentlemen:*

It is true, as Mr. Watts says, that for the past two days we have looked into the eyes of your people and we are glad we are here to enjoy the hospitality of a people who in their charm unite the best qualities of the North and the South. We intend, during the remaining portion of our visit, to enjoy all that St. Louis has to offer to the uttermost; but in a larger sense we are glad that St. Louis has been selected as the convention city this year. We feel that St. Louis, by reason of its situation in the center of the North, the South, the East and the West, has enabled us to assemble here in numbers larger than has ever attended a national convention of this Association before. We are glad also of the happy circumstances of being where, as Mr. Watts says, was discussed the silver issue and later the question of currency reform.

We feel, however, that this meeting is perhaps just as epoch-making. We are gathered at a time when the war has placed upon us the duties and responsibilities of being the creditor nation and the export nation of the world, and these statements are not made with any feeling that we are glorying in our opportunities, but merely to bring to our minds a realization of the duties which are cast upon us by reason of these events. We have now to meet a problem which those nations occupying a similar position in past decades had to meet; and that is, how is this nation to discharge the great duty of attending to the credits and finances of its own credit enterprises, and at the same time the credit and finances needed by the stricken European countries? That is the duty now cast upon us, with a banking system that comprises a national system and forty-eight separate state systems, and also nearly thirty thousand state banking institutions. When nations of the past had to meet a similar issue they had their great central banks, their great private banks, possessing strength and solidity; but we have to work out our problem with our banking system as it is and as it shall remain. We have, it is true, the great Federal

reserve system that centralizes our gold reserve, but does it centralize the operations of our banks? Does it give our banks the opportunity of centralization of credit and finance so that we can discharge those larger duties? No, it does not, and it is up to our banks, and it is up to the banks acting through this Association, to oil that machinery and take advantage of those means that we know, in the same way that we coordinate and bind together these separate institutions so that these great duties can be performed as they should be. When we have the problem of financing the cotton crop of the South it is not and should not be the concern only of the banks of Texas and Georgia, but of the banks of California and Oregon as well. These banks should take an equal participating interest in seeing that that crop is properly taken care of. Similarly, when we have large export operations on the Atlantic or Pacific coast to take care of, that duty is not only a burden on the banks in those sections but on every bank in the middle-west. They may not have any foreign trade business whatsoever, but they have and should have a concern in seeing to the financing of that foreign operation just the same as though they were on the Atlantic or Pacific seaboard. The reason is that in our nearly thirty thousand institutions is contained the credit strength and the financial strength of this entire country, and that strength can only be sustained by the development of a certain amount of cooperation and coordination. Therefore, I say that this meeting is a most significant one. At this meeting should be devised and built a foundation broad and deep, upon a superstructure which will take care for all time of our present banking needs and duties. It is a happy circumstance that we are here in this central portion of the United States where that foundation can be laid. Mr. Watts, it is a great pleasure to be here amongst your people seeking to lay the foundation for solving our problem and to devise such a plan and policy as will enable the balance of this country to do its proper share in working out the great destiny of the nation. (Applause.)

PRESIDENT MADDOX: It now becomes my duty, gentlemen, to read to you the annual report as prepared by the President.

## ANNUAL ADDRESS OF THE PRESIDENT

### ROBERT F. MADDOX

At the time of our last Convention just a year ago, our country was engaged in a great conflict and we were doing everything in our power to win the great war. Our farms, our factories and our mines were being worked with patriotic energy to furnish our army and the armies of our allies with the necessary supplies.

Our people had cheerfully purchased more than ten billion dollars of Liberty bonds and were preparing to take another issue of six billion, feeling confident that they would be promptly subscribed. We were rationing our food, that others might be fed, and our men and women in all walks of life were making every sacrifice to bring the war to a quick and successful conclusion.

We had mobilized four million men in our army and had sent half of this number across the sea, trained and equipped for battle and ready to make the supreme sacrifice if necessary, to stop the onward march of the armies of the Central Powers, which threatened to conquer the world. We had heard of the glorious victory our soldiers had achieved at Chateau-Thierry and at St. Mihiel and were anxiously awaiting the result of the battle of the Argonne, which had just begun.

In less than two months after our last Convention had adjourned the weight of the armies of the United States, backed by the loyalty of our people, and the great resources of our country, had brought victory to the Allies. Justice prevailed, Germany, Austria and Turkey were hopelessly defeated, autocracy fell, and human liberty was saved to the world.

#### AMERICA IN THE WAR

The accomplishments of our country while engaged in this great war reflect credit upon all our people and add glory to the splendid traditions of our past. We are grateful to the men and women who served at home and we will long remember the courage and patriotism of our soldier boys who went into the battle lines in France and brought our flag victoriously back home with the Stars and Stripes shining with new brilliancy—honored and respected as never before throughout the world.

To those brave American boys who fell in battle and now sleep beneath the sod in France, many of whom went from our banking institutions, we owe a debt which can only be paid by forever cherishing their memory and carrying on the spirit of Liberty and Justice for which they so nobly gave their lives.

In all of the war activities the members of the American Bankers Association have done well their part. From the floor of our last Convention, in response to a telegram from President Wilson expressing his appreciation—"At the splendid spirit and efficiency with which the bankers of the country were assisting the Government in the all-important matters of the loans"—you remember we wired him that—"Every ounce of energy and every resource at the command of the bankers of the nation are pledged to the cause of human freedom and independence."

How well the bankers kept that pledge is known to all men and now that the war is over, the members of the American Bankers Association

can with satisfaction share with their fellow citizens the joys of victory and with renewed energy co-operate with them in courageously meeting the problems of peace.

#### WAR FINANCES

In meeting the uncertain war conditions and the sudden expansion of business during the past few years, the Federal reserve banks have proved a splendid and even a surprising success, for they have demonstrated that our present banking system is the superior of any in the world.

We shudder to think what might have happened if we had entered the war under the old régime of banking and are grateful to those who devised and co-operated in passing the measure and are under many obligations to the members of the Federal Reserve Board and the officers of the Federal reserve banks, who have so wisely directed their operations.

The statement of the Federal reserve banks on September 5 showed that out of 2,200 millions of bills receivable, 1,635 million were secured by government war obligations, thus demonstrating their great value to the government in assisting the member banks to carry loans secured by war obligations, without retarding their commercial transactions.

It is expected that in a reasonable time, these loans now carried by the banks of the country for their customers who subscribed for war obligations, will be paid, but considering the fact that out of government obligations now outstanding of approximately twenty-five billion dollars, the comparatively small amount of notes discounted by the Federal reserve banks, secured by these obligations, is very gratifying.

When we consider that the cost of the war to the United States from April 6, 1917, to June 30, 1919, was 30,167 million dollars and that we only issued 21,475 million dollars of bonds to meet this expenditure, relying upon taxes to make up the difference, a large part of which has already been paid; and that we now hold the obligations of our allies for approximately ten billion dollars, which in time will be paid; it would seem that, considering the magnitude of our engagements, the war has been most wisely financed and the burden of future government requirements can be easily borne.

On June 30, 1914, the deposits of all the banks of this country were about twenty-one billion dollars. The deposits of the national banks on June 30, 1919, were approximately sixteen billion dollars and while the deposits of the state banks are not obtainable at this time, estimating their increase in the same proportion as that of the national banks, it is safe to assume that their deposits are now approximately eighteen billion of dollars, making a total for all banks



of thirty-three billion dollars, or an increase for the war period of about twelve billion dollars.

Our circulation has risen from 3,478 millions on September 1, 1914, to 5,743 million on September 1, 1919, or an increase of 2,265 million, more than \$20 per capita.

With bank deposits during the war period increasing 57 per cent., and our circulation increasing 65 per cent., it is not surprising that the Bureau of Labor at Washington has estimated the increased living cost at 70 per cent.

That the peak of high prices has been passed seems to be indicated by Bradstreet and Dun's reports showing that their index number of commodity prices declined from August 1 to September 1.

#### MEMBERSHIP

Our membership at the close of our fiscal year, September 1, was 20,214, the largest in our history and showing a net gain for the year of 1171.

In this connection it is interesting to note that in the past five years since the European war began, our membership has increased 5,502. We now have more than five-sevenths of all the banks in the country, and I believe that in a short time practically every bank in the United States will realize the value of membership and will co-operate with us in making our fraternity a still greater factor in the progress and development of our country.

#### SECTIONS

Our financial affairs are in excellent condition, as will be seen by the Treasurer's report. The work of the various Sections of our Association, including the National Bank, Savings, State Bank, Trust Companies, State Secretaries and Clearing House Sections, having been especially satisfactory during the past year, as will be seen by the reports of their officers. The State Bank Section, the youngest section, has now the largest membership and is proving of much value to its members.

The American Institute of Banking has enjoyed a splendid year and the work of broadening its influence among the young bank men has been carried forward with great success by its present officers. This department is of great value in educating young bankers for the important work of the future and deserves our cordial and continued support. The *Bulletin*, which is published by this section quarterly, is very interesting and is proving to be one of our most important publications.

#### THE JOURNAL AND BANKER-FARMER

The JOURNAL is now rapidly being developed into what it should be—a magazine of general interest to our members. The past year was

the first in which advertising was taken and this has proved to be a proper and valuable aid in reducing the cost of publication. In another year the value of this advertising should be demonstrated to our patrons and a greater income derived from this source. It has been suggested that the JOURNAL, if published weekly or semi-monthly, might prove more interesting and beneficial to our members by giving them banking news and current information more promptly than as, at present, in a monthly publication.

The expense, however, of publishing the JOURNAL more frequently would be very much greater than the present appropriation and it was not thought advisable during this year to make the change, but it is hoped that in the near future our income will warrant its being made.

The *Banker-Farmer*, another publication issued by the Association, has continued to prove a valuable aid in developing the agricultural interests of our country, which are now so closely allied with the growth of the banking business. During the war the *Banker-Farmer* was very active in stimulating the increased production of the farmers, and has received the cordial co-operation and endorsement of the United States Department of Agriculture. Considering the small net cost to the Association, this publication is proving a splendid investment.

The Agricultural Commission, under the able leadership of its Chairman (who at the last meeting of our Association was made a member of our Executive Council) has rendered valuable service during the past year, not only to our Association but to the country at large.

#### ENLARGED ADMINISTRATIVE COMMITTEE

The wisdom of our last Convention in adding the Presidents of the National, State, Savings Banks and Trust Company Sections to the Administrative Committee and adding the Vice-Presidents of these sections to the Executive Council, has been demonstrated by the fine spirit of harmony which now prevails among all of the sections. All now have direct representation on these important committees; have a more intimate knowledge of the affairs of the Association, and a voice in directing its management.

At one time it was feared that sectional differences might disrupt the Association but I am glad to say that our members now seem to realize that it is big and broad enough to be helpful to all and harmful to none and the cordial co-operation now existing promises to make our work in the future more beneficial than ever before.

#### WASHINGTON OFFICE

A few months ago under the direction of the Administrative Committee, the National Bank Section opened a service office in the City of Washington, where it could serve its members in connection with the many transactions they are compelled to have with the Treasury

Department, and the office of the Comptroller of the Currency under whose supervision they are being operated. This office has already proved to be of much value to the members of this section.

The Administrative Committee in January was of the opinion that it would be wise to move the entire headquarters of the Association from New York to Washington and recommended this proposition to the Executive Council, which, upon a referendum, voted by a large majority in favor of the move. Upon subsequent consideration of the subject, however, there was some difference of opinion among the members of the Administrative Committee and among the members of the Executive Council, and it was decided to bring the matter to the attention of the General Convention for such action as it might deem best.

#### LEGAL DEPARTMENT

The work of the Legal Department of our Association, under the able management of General Counsel Paton, has grown very much during the past few years and now, owing to our large membership, the legal opinions requested by our members and the service rendered by the General Counsel have greatly increased.

Judge Paton has been with the Association for many years and during this period has rendered several hundred important decisions on banking questions and it has been decided to publish a Digest of these opinions in book form. This book is now ready for distribution. It should prove a valuable addition to the office of any banker, and I hope our membership may take advantage of the opportunity of securing one.

#### PROTECTIVE DEPARTMENT

Owing to the general unrest throughout the country and the large number of men out of employment during the past year, incident to labor conditions and the demobilization of our army, the Protective Department has been very busy.

The number of attacks made on banks has been greater than in any year in our history and the amount expended for the protection of our members has likewise been greater. The efforts of our Protective Department in arresting the offenders have, on the whole, been satisfactory, but in many cases the clues were not sufficient to get satisfactory results. Mr. L. W. Gammon, who has so ably managed this department, completed his tenth year of service on August 2.

#### COMMITTEE ON COMMERCE AND MARINE

You will remember that at the last Convention the President was authorized to appoint a committee on Commerce and Marine to study this important subject and report to the Convention. The committee was appointed and Mr. John McHugh of New York was elected its

Chairman. The committee has had several meetings and has given this subject a great deal of attention.

It has been in close touch with the legislation affecting our merchant marine and the development of our foreign commerce, as its report will show, and I hope it will be the pleasure of the Convention to continue this important committee.

#### FOREIGN TRADE

For many years we have been producing more in this country than we could consume and the war has stimulated the output of our farms, factories and mines, so that we must look, more than ever before, to our exports to keep our people well employed.

The figures of our foreign trade are almost beyond comprehension. With an annual balance of trade before the war of 500 million dollars, our balance for the last fiscal year reached 4,200 million dollars and for the five-year period amounted to the stupendous total of 14,434 millions of dollars.

These figures tell the story of the greatest commercial activity in our history, but we must remember that this result has been attained by conditions which we cannot expect and would not wish to have again. That the decline has set in is shown by the fact that our exports have rapidly decreased in July and August.

The difficulty Europe is now having in paying for our products is shown by the recent great decline in her exchanges. With the pound sterling now selling at 14 per cent. discount, the French and Belgium francs at 40 per cent. discount and the lire at 47 per cent. discount, it is very evident that our situation will be serious unless some relief can be found.

We are fortunately able to extend this accommodation, and the only country in the world which can. If we fail to meet this responsibility, as well as this opportunity, we will in a measure lose the great benefit the war has brought to our door.

We know that Europe will require a large amount of our products in the future, but the question now is—How can this trade be financed? As we cannot expect to receive payment in goods or gold, it must be paid in some form of time obligations, either the securities of governments, municipalities, or industrial enterprises—and perhaps all three may be used.

It is thought by some that our government should extend this credit to the governments of our allies, taking short time bonds and issuing short time bonds against them, but the general impression is that there is a strong opposition in Washington to the government issuing any more bonds.

The Platt bill, recently passed by Congress, allowing the national banks to invest 5 per cent. of their capital and surplus in companies

engaged in international trade and the pending Edge bill providing for the organization of corporations to engage in foreign banking and financial operation under the supervision of the Federal Reserve Board, are measures designed to facilitate our exports and assist in extending some form of financial assistance. The amounts involved are very large and it remains to be seen whether these measures will meet the situation.

In my opinion the thought of the bankers and the business men can well be turned to this export question, for it is certain that upon the continuance of our foreign trade must rest the future prosperity of our country.

#### LABOR AND THE WAR

When we remember that in the great conflict through which the world has just passed 50,000,000 men were recently in arms, bent upon death and destruction—that 7,500,000 fell in battle—that the contending countries spent more than \$200,000,000,000 in carrying on the war—that hundreds of millions of men and women were drawn from their normal activities, it should not be surprising that there is a spirit of unrest everywhere, and it will take time for men to recover from their experiences of the recent past and calmly return to their former quiet and peaceful pursuits.

During this transition we can understand how the great laboring classes, finding their condition but little improved, still paying war prices for their necessities, forgetting that the channels of trade are still blocked by the wreckage of war; are manifesting a spirit of dissatisfaction and are easily led by false friends who point the way to salvation through the easy paths of Socialism and Anarchy. We have witnessed such tendencies spread from Russia to Europe and across the Atlantic to America.

But the civilized world has been five years in suppressing a spirit which failed to consider the rights of others and it will not now tolerate another attempt to terrorize it in submission to a practice that is wrong in principle.

The war just over was settled by the arbitrament to the sword, and the struggle, now on, will, and must be, settled by appealing calmly to the intelligence of the people. It must be made plain to those who are threatening to disregard law, that their future prosperity can only be secured by its observance. It is the duty of those in authority, everywhere, to assure the people that the rights of all will be protected, and while labor has won its way to a higher place in the world than it had before the war, that place cannot be determined by the disregard of law and order.

It is unfortunate, however, that in this country which has suffered so little, where labor as a whole has been well treated, and has been given higher compensation than in any other place in the world,

organized labor has demonstrated on many recent occasions its utter disregard for the interests of any other class. But we cannot fail to seriously consider the labor question when we see branches of the union spread to clerks, policemen, firemen, school teachers, and even to actors.

The issues confronting the American people today seem to be whether the government shall be more powerful than the labor unions, whether business enterprises will be completely dominated by the labor unions, or by giving all employees a larger share in the profits and a greater voice in the management of business, the labor unions will be broken up. The difficulty is, at present, that the labor leaders do not seem disposed to accept in lieu of their union control, the profit-sharing plan, but insist upon the closed shop.

I hope, in the near future, the conference called by President Wilson on this subject may in some way solve the problem and capital and labor—"useless each without the other"—will in a friendly and co-operative way work for the happiness of all and the continued development of our great country.

#### RAILROADS

We hope Washington will soon act on the Peace Treaty and the League of Nations, as there are many domestic problems which require the attention of Congress. The greatest of these is legislation concerning the railroads. Nothing is more important than the service and development of our transportation systems. They are the arteries through which the life-blood of the nation flows. They touch the activities of all our people. We know that the railroads have not received fair treatment from the rate-making power and by denying them reasonable returns on their investments, their credit has been largely destroyed. Their physical condition had declined before the government took them over and under government operation it has not been improved and their expenses have increased by leaps and bounds.

Out of the many plans suggested for their future operation it is hoped that Congress, without prejudice or political consideration, may reach a wise conclusion, and these great properties be further developed and able to render better service.

#### THE BUDGET SYSTEM

There never was a time in our history when it was more necessary that our people should begin to check extravagances and practice thrift and economy, and nothing would be more conducive to such practice than having our government set the example.

It was, of course, necessary for the government to be somewhat wasteful in its expenditures during the war but there are no such reasons at this time. It is earnestly hoped that the budget system of handling the finances of our government will be adopted by this Congress.

Our Executive Council unanimously recommended the adoption of such a system at its last meeting and similar resolutions have been adopted by the leading commercial organizations of the country.

#### DEATHS OF COL. LOWRY AND MR. LYNCH

During the past year the members of our Association learned with the deepest regret of the death of two of our most beloved and distinguished former presidents—Mr. James K. Lynch, who was elected President of the Association in 1915, died at his home in San Francisco, California, and Col. Robert J. Lowry, who was elected President in 1896, died at his home in Atlanta, Georgia.

These gentlemen served our Association with credit and ability. Their genial presence will be missed at this Convention and their loss is keenly felt, not only by the bankers of America, but by their countless friends in all walks of life.

I wish to take this opportunity to express my sincere appreciation for the courtesies which have been extended to me and the co-operation which has been given my efforts by all of the officers, committees and employees of the Association; particularly the General Secretary, the Assistant Secretary and the secretaries of the various sections; the General Counsel, the editor of the JOURNAL, the manager of the Protective Department and the other members of the staff.

In conclusion let me say, I hope that out of the history of our past and out of our deliberations here all of our members may catch anew the spirit of service and in the years to come the American Bankers Association will continue to grow in usefulness and make its influence felt in every worthy enterprise looking to the happiness of our people and the prosperity of our country.

**PRESIDENT MADDOX:** Gentlemen, the reports which follow in the program have been printed and distributed and will be considered as having been submitted. We are very happy today to have with us an unexpected guest. The United States Chamber of Commerce had arranged for this week a very important meeting at Atlantic City, but owing to the fact that many speakers from European countries were unable to be present this week, that meeting has been postponed. One of the principal speakers for that meeting was the guest that we have with us today and as soon as I learned that that meeting had been postponed, I immediately requested him to come to St. Louis and make a speech to our Association, feeling sure that you would be very glad indeed to have him on the program under these splendid conditions. He is a

man who is well known to all of the bankers of the United States, whose splendid service as the war Governor of the Federal Reserve Board has been a great factor in carrying on the stable commerce of our country and keeping our banking matters in such excellent shape. I am sure you will be very glad indeed to have me present to you Hon. W. P. G. Harding, Governor of the Federal Reserve Board at Washington.

## ADDRESS BY W. P. G. HARDING

### GOVERNOR FEDERAL RESERVE BOARD

*Mr. President, Ladies and Gentlemen of the American Bankers Association:*

We would be blind, indeed, if we failed to recognize the fact that the radical and revolutionary tendencies existent in Europe are taking root upon our own soil; and in considering the means of allaying the spirit of unrest, and of maintaining the orderly processes of production and distribution, we should first determine the nature of our present troubles, and analyze the causes which have induced them. The great masses of our people are law abiding, and the native born and foreigner alike look upon this country as a land of promise and of opportunity they respect American traditions and loyally support American policies. The agitator and anarchist are always in our midst, it is true, but normally their influence is negligible, and it is only when they can take advantage of a general feeling that something is wrong and that a drastic remedy must be found that they are able to command a following.

The causes which have brought about present conditions are sociological and economic. They may be traced back to primal instincts—to the desire for food and shelter. Some of the changes which have come from the war, have been so sudden and so marked that they have affected the popular sense of proportion. Five years ago a man doing a day's work received, let us say, four dollars, which would buy a certain amount of food, clothing and shelter. Eight dollars, at that time would in addition have procured certain pleasures and luxuries, or else would have obviated the necessity for working every day. Now when wages have been doubled, so that the same service that brought four dollars brings eight dollars, the workman feels that as he has a larger income, he can either spend more or work less. But as prices have advanced he finds that he can buy no more with eight dollars than he formerly could with four.



The farmer is having the same experience. With wheat at one dollar a bushel he had been accustomed to certain living expenses—to paying certain prices for the things he had to buy. Wheat at two dollars and twenty-five cents a bushel would have been regarded a few years ago as an iridescent dream, and its realization meant comforts and luxuries hitherto unattainable. But with higher labor costs, and higher prices, for everything he has to buy, the farmer is disappointed in finding that his wealth does not increase in proportion to the advance in the market price of his products, and that if he wishes to save anything, he must live and work very much as he did in the days of dollar wheat and ten-cent cotton.

A very large body of the people, including professional men, preachers, teachers, accountants, salesmen and clerks, are receiving only a small increase in compensation, and upon these, including those having moderate fixed incomes from investments representing life-time saving, the burden of high prices falls with crushing force.

Our troubles then, are the result of economic causes, and have come from a dislocation of the normal relationship of supply to demand. These causes are directly traceable to the great war, to its waste and destruction, to its heavy drain upon available supplies that constituted so large a part of the world's liquid wealth, and to the financial expedients, which were necessary and unavoidable in order to procure these supplies.

In treating physical ailments, it is necessary first to make a careful diagnosis—to ascertain the nature and cause of the complaint, in order that the proper remedy may be applied and a recurrence of the ailment prevented—the wrong medicine merely aggravates the disease. There are some who reason that as prices and the volume of currency in circulation have increased *pari passu* our high costs of living are due to currency inflation,—to an excessive number of dollars, and the remedy they propose is immediate and systematic contraction. Others concede that our currency is not mere fiat money, issued at will by the Government to defray its expenses, with no provision for redemption, but is redeemable in gold at pleasure of the holder, and as its principal constituent, the Federal reserve note, is issued only in exchange for gold, dollar for dollar, or upon pledge of eligible paper, the result of a legitimate credit transaction, in which case a gold reserve of not less than forty per cent is required for all notes outstanding, the trouble is due not to currency inflation, but to credit expansion.

Those holding this view are more nearly correct, but credit expansion did not create the world-wide demand for goods and services, but was a necessary factor in enabling the demand to be satisfied. The demand was of an unusual character; it was a demand from

governments whose very existence was at stake; it was an urgent and insistent demand with quick delivery as the essential condition, and price a minor and inconsequential condition. During the years 1915 and 1916 the allied powers of the Entente had no coordinated purchasing agency, and they competed sharply for the goods we sold them. During this period they sent us, in payment of purchases, about \$1,200,000,000 of gold, which increased our stock of the metal to more than three billion dollars and added greatly to the foundation for our own credit expansion after we entered the war. History records no more remarkable achievement than that of the United States, not a great military power, and with a navy ranking, at the beginning, no higher than third, and with only a shadow of a merchant marine, in equipping and sending over-seas an army of more than two million men, and in bringing that army of untrained recruits to such a degree of efficiency that in less than eighteen months from the date of the first draft, it was able to do a great part in striking those heavy blows that brought Germany to her knees. In accomplishing this our Government had no time for bargaining or haggling; goods and services were needed, and time, rather than price, was the essence of contracts for material and supplies. Not only were the demands of our Government for its own account far heavier than any layman had ever conceived of, but those of the governments with which we were associated became heavier than ever, for as their own resources and credit became depleted, they were obliged to increase their purchases in this country, availing themselves of the credits aggregating \$10,000,000,000, granted by the Government of the United States.

In these circumstances it was inevitable that a tremendous strain was put upon our productive capacity, which was stimulated both by high prices and wages, and by the fine spirit of patriotism which pervaded the country during the war, and which ought not to be allowed to languish now, for the war is over in a military sense alone, and its resultant problems of readjustment and reconstruction are confronting us.

These demands had been foreseen, and in great part had actually arisen before the declaration of war on April 6, 1917.

Our credit expansion in this country is due to government purchases, and to the Government borrowings—the only alternative to loans being 100% taxation to meet war expenses.

The interest bearing obligations of the Government outstanding at the time of its entrance into the war amounted to about \$1,100,000,000, and since that time the net increase has been about \$24,500,000,000, in which is included the sums loaned to the allies. This takes into account all the Liberty bonds, the Victory notes, and outstanding treasury certificates.

These obligations have not been issued, nor were the various liberty loan campaigns engaged in, for the purpose of boosting wages and prices. These obligations are in existence because their proceeds were needed to purchase supplies and to pay for services necessary in winning the war. Many of them are in the banks as collateral to loans made to subscribers unable to pay all cash out of accumulated savings but who expected to liquidate gradually out of current earnings and profits. About one and three-quarter billion dollars' worth of them are held by the Federal reserve banks as collateral to paper rediscounted by member banks. This may give the statements of the Federal reserve banks a credit expanded look as compared with the pre-war statements, but all the circumstances considered, the expansion is necessary and in view of the combined reserves of more than 50 per cent in gold, not dangerous. The Government is retiring its bonded indebtedness at the rate of nearly \$750,000,000 a year, and private investors and subscribers, still indebted to banks on bonds would help reduce the volume of credits by making their installment payments regularly.

Whether or not credit expansion is dangerous and harmful, depends not only upon the gold reserves supporting the credits, but upon the character and purpose of the credit. Drastic contraction of credit undertaken merely for the purpose of giving the dollar its former purchasing power, would bring about reduced production, unemployment and wide-spread disaster.

What is needed is the restoration of a proper balance between the volume of credit and the volume of goods. Because of the war financing of the Government it is not practicable to reduce the volume of credit except gradually, and the best and probably the only remedy for the present unrest is to increase the volume of goods, and the facilities for their distribution. Shorter hours and higher wages do not tend to increase production, but rather the reverse, and strikes and walkouts are doubly harmful in that they stop production without materially reducing consumption. If there could be an industrial truce in this country and all over the world, for six months, more could be accomplished in the adjustment of prices and in bringing about better living conditions for all, than can ever be done by agitation and strife.

There are some who fear that there may be over-production, and who dread the effects of such a reversal of the situation. These evidently do not take into proper account the great destruction brought about by the war, and the urgent need for fuel, machinery, metals, lumber, textiles, hides and leather, rubber and food stuffs, throughout Europe. But because of the inability of many European countries to settle balances in gold or by the shipment of goods, a condition reflected by the heavy discounts prevailing in the rates of exchange

on most of these countries, the translation of this physical need into an economic demand, will depend upon the credit facilities granted by the governments or private financial institutions of the exporting countries. The articles for which Europe has the greatest need include many of which this country produces normally an exportable surplus.

It is important to us that Europe gets the things so necessary to the life and comfort of her peoples, for the restoration of a normal capacity for production, and for her economic and financial rehabilitation. Let us not forget that a Bolshevik Europe means danger and constant trouble for America, for modern methods of communication have made us close neighbors to the rest of the world.

The maintenance and development of our export trade along proper lines is important in order to give us an outlet for the surplus products for which we have the capacity when labor is fully employed.

As a war measure our Government has loaned to other governments practically the entire amount of the \$10,000,000,000 authorized by Congress. The fact is unquestioned that Europe needs additional credits in this country in order to procure the things she requires and which we wish to sell her. It is impossible, however, to state with any approach to accuracy the amount needed. Estimates vary from one to five billions of dollars.

There is no indication of any disposition on the part of Congress to provide for further credits by our Government, some of the objections made being that a policy adopted in a war emergency should not be continued as a peace policy; that such a further extension of credit would be an export subsidy and would be used in part in sending to Europe non-essentials and luxuries; that such a subsidy for the benefit of a class would make it difficult to refuse Government aid to other classes; that higher taxes are undesirable, and that new bond issues would have an unfortunate effect and would retard the readjustment of our credit structure upon a normal, commercial basis. In the absence, therefore, of any definite indications that there will be further Government credits to aid our export trade, it is best to rely upon private enterprise and resources and consideration should be given to the possibility of meeting the requirements of the situation without Government aid except such as can be given through the War Finance Corporation, which is authorized, during a period of twelve months, after a formal proclamation of peace, to extend credits in aid of export transactions, to run not longer than five years, and in the aggregate amount not to exceed one billion dollars.

World banking in its broader sense is new to America. We have had, of course, international banking houses for many years, but their activities have been directed usually to placing American loans and securities in Europe. Our large banks have bought bills of exchange drawn against documents, and have sold in early summer their finance

bills in anticipation of grain and cotton bills available in the fall. Of recent years they have been accepting in transactions involving the exportation or importation of goods, and they have been feeling their way cautiously in underwriting credits based upon the obligations of a consortium of foreign banks, sometimes with, and sometimes without definite guarantees of foreign governments.

One very large national bank has numerous branches abroad and there are several corporations doing a foreign banking business in which, under the provisions of section twenty-five, of the Federal Reserve Act, national banks are permitted to hold stock, to the extent of ten per cent of their capital and surplus, which must not be less than one million dollars. These institutions, however, confine their operations to short-time credits, represented by bills of exchange, which are sometimes drawn under agreement to renew for periods, as a rule, not longer than one year.

In order to encourage the organization of credit companies to aid in financing exports, Congress has recently enacted a law which authorizes any national bank regardless of size to invest up to five per cent of its capital and surplus (provided it has not already invested ten per cent of its capital and surplus in a foreign banking corporation) in stock of companies organized for the purpose of engaging in such financial operations as may be necessary to promote exports of "goods, wares and merchandise from the United States or any of its dependencies." This law is intended to encourage the organization of corporations interested in the export of particular products or groups of products.

The Edge Bill, which has passed the Senate, and is now being considered by the House Committee on Banking and Currency, provides for Federal incorporation under liberal, but clearly defined powers, of banks and corporations doing principally a foreign banking business, or engaged in financing export transactions. Such corporations will be subject to the supervision of the Federal Reserve Board, and will be permitted to offer for sale their own obligations specifically secured by notes, bonds or other evidences of debt acquired in their foreign transactions. As American banking houses have had comparatively little experience in making investments or in granting long credits abroad, it will be necessary to develop the machinery required for conducting this business at a minimum of risk. England herself, a past master in the business of world banking, recognizes the necessity for devising means of reducing and distributing the risks connected with exporting goods to disorganized countries, and the tentative plan of the British Board of Trade is attracting much attention.

This is for the purpose of carrying out the plan announced by the Prime Minister in his notable speech in the House of Commons on August 18. It is stated that these credits will be based on bills drawn

in Great Britain by the seller or shipper of the goods and accepted by the buyer and will be subject either "(a) to the deposit with an approved bank in the country of purchase of currency to an amount required by the office, or (b) to a guaranty of currency of a required amount by an approved bank, or (c) to arrangements for the handing over of produce of the buying country, or (d) to the deposit of securities with the approved bank or the office under the scheme.

"The office will fix periodically the amount of currency required to be deposited per 100 pounds sterling, and will have power to vary its charges according to the nature of each transaction. The credits will continue for such period as the office may determine in each case, having regard to the economic prospects of the country concerned and the character of the business, but the maximum period will be three years. The charges for each period of six months will be on a rising scale in order to induce early liquidation.

"The office will be entitled (a) to take over and liquidate collateral pledges, (b) to have recourse against the acceptor of the bill for any deficiency, and (c) to have recourse against the guarantor.

"The credits furnished will not as a rule exceed eighty per cent of the prime cost of the goods sold, plus freight and insurance (including the charge made by the office). In special cases, however, at the discretion of the executive, the amount may be increased, but in no case will it exceed the prime cost plus freight and insurance (including the charge made by the office). If the proceeds of the bill are less than the prime cost plus freight plus insurance (including the charge made by the office), the loss represented by the difference will be divided between the office and the drawer of the bill in the proportion of four-fifths to one-fifth.

"Business will be taken only through banks and on the reports of banks and the aggregate amount of credit to be granted will not exceed 26,000,000 pounds (\$126,529,000 at normal exchange).

"The areas and classes of goods to which the scheme relates will be settled from time to time by the Government but credits will not be furnished either for the export of raw material or for the sale of stock held by government departments."

In financing our own export transactions, we will have a wide choice. There is no doubt that ample security is available in the countries with which we would be most likely to deal. The large debts of European countries are for the most part, internal, and while the war has made serious inroads upon liquid wealth, the fixed wealth—the lands and buildings—are untouched except in the devastated areas, which form only a small part of the whole. What Europe can do when she settles down to work has been exemplified by England's achievements in commerce and colonisation, by the great strides made by Germany up to 1914 in manufacturing, shipping and trade control,

and by the marvelous recovery of France after her debacle in 1871. Thrusting the communists aside, she went to work, paid the last centime of her indemnity to Germany long before maturity, and in five years was more prosperous than ever. We can not doubt that what a defeated nation has done a victorious nation can do again.

**PRESIDENT MADDOX:** The next speech on our program, gentlemen, is by one who is well known to the bankers of this country. You remember in August, 1913, after the pending banking bill had passed the House there was a meeting of the bankers of the United States held to consider that measure in Congress, held in the city of Chicago. After considering that bill at that time the bankers suggested a few changes in the measure and a committee was appointed to go down to Washington and appear before the Banking and Currency Committee of the Senate. I believe it was the first committee that had appeared before Congress, as I do not think the House Committee had hearings. I happened to be a member of that committee. Another member of that committee I see upon the stage, a distinguished fellow-citizen of St. Louis, Mr. Festus J. Wade. The chairman of that committee was the speaker about to be introduced.

I well remember that our committee appeared before the Banking and Currency Committee on Monday morning. We only expected to be there a little while, appreciating the opportunity of appearing at all. The Banking and Currency Committee was so courteous to our committee and so anxious to have our views and receive the cooperation of all those who were interested in that measure that the committee sat with the Banking and Currency Committee from Monday until Friday every day during all those deliberations. We were especially appreciative of the courtesy and consideration given to our committee by the chairman of that committee whose splendid services as chairman of the Banking and Currency Committee enabled him and his committee to fashion out a banking bill which has proved to be the superior of any in the world, a man who is a practical banker, a splendid business man himself, a statesman of a high order, honored

not only by the middle-west but by the people throughout the United States. I take pleasure in introducing to you Hon. Robert L. Owen of the United States Senate.

## STABILITY IN COMMERCE AND GOVERNMENT

SENATOR ROBERT L. OWEN

Stability in industry and commerce and in government is vital to the happiness of mankind.

Today we witness some of the evils of instability in production, distribution, and the purchasing power of the dollar, the effects of which appear in the high cost of living, under which the world groans, bitterly complains, and threatens the stability of government throughout the world. When the normal income does not suffice to give food, clothing, and shelter, and the necessities of life and reasonable liberty, men first grow impatient, then indignant, and this indignation may rise by degrees to insensate fury, the destruction of government, of life, and property, and of those productive processes vital to remedy the very evil complained of.

The Government of the United States is controlled by public opinion in large degree, and the members of your association touching every business enterprise throughout the United States, and every depositor and agency of production and distribution, are capable of directing public opinion along safe lines that will establish stability instead of instability.

In February, 1908, in discussing the principles which should control the banking system and prevent financial panic, I emphasized then, as I do now, the extreme importance of stability. One of the great causes of instability of the past were periodic panics in the financial world. This evil has been remedied by the combined wisdom of the country, by the Federal reserve act, which I had the honor to engineer through the United States Senate, with the aid of many men. I wish to point out to you certain elements which have contributed to the present high cost of living, a condition of very grave instability and menace, with some suggestions which I trust may prove useful if they meet with the approval of the country and your active support.

The chief factors entering into the high cost of living are: 1, gold expansion in America; 2, Federal reserve note expansion; 3, credit expansion, United States Government bonds, certificates of indebtedness, Treasury notes, deposits, and loans; 4, extraordinary prices paid for material and labor by munition makers, by the Army, by the Shipping Board, and other governmental agencies, under the urgency of war; 5, the dislocation of peace industry during the war



and diminishing production in such industries; 6, destruction of shipping by the submarines and greatly impaired transportation facilities and equipment; 7, extraordinary European demands and cessation of peaceful production; 8, unrest of labor because of the high cost of living, strikes, unproductiveness because of discontent; 9, hesitation of capital because of unstable conditions; 10, interruption of exports because of inadequate support of European exchange and lack of credits to finance European construction; 11, excess-profits tax and heavy war taxes passed by manufacturers and merchants and business men directly on to the products of commerce to the consumer, raising the prices of all products, compelling labor to demand larger wages in order to live, and establishing a vicious circle affecting the great railway properties and all industrials and all merchandise; 12, the exaction of monopolies, restricting production, and restraining trade and fixing unfair profits. These monopolies existed before the war, and have grown worse during the war because of the other factors heretofore recited; 13, and finally local profiteering, under which first necessity and then greed has influenced very many middlemen to take advantage of unstable conditions to charge extortionate prices; 14, violent rising prices have led to enormous waste, extravagance, and recklessness of expenditure by those who have profited, setting a false standard and an impossible standard for those who have not profited but have suffered by these conditions.

The effect of all these things has caused a feeling of violent unrest with some of those who have suffered, and a false leadership has arisen, advising the overthrow of the existing order, because those charged with duty of government do not afford adequate relief and offer no satisfactory solution.

I wish to offer you some suggestions that will tend to give stability, in the hope that some of the suggestions may be found of use and put into actual practice. Words without action are empty and vain.

#### SEND GOLD ABROAD

In exchange for our commodity excess shipments we have gained eleven hundred million dollars of gold. This has expanded our currency and diminished its purchasing power and caused a rise in prices. The metallic gold is lying in our vaults serving no adequate purpose, while European currency, violently inflated, needs deflation and additional gold reserves. We could profitably lend a thousand million dollars of gold to other nations without deflating American currency, because under the Federal reserve act commodity bills based on warehouse receipts and goods in transit can take the place of gold which we hold in excess and which will flow back to our country unavoidably unless we permit the people of Europe to repay us in commodities the ten billions we have loaned them, and on which we will receive over

five hundred millions annually in interest. We need have no fear in loaning money to Europe on proper security. Neither Europe nor the world is bankrupt because of the World War. The world has only suffered to the extent of the net destruction of property. The energies of the war have created a very large offset to the destruction of property. The war debits are held as offset credits by citizens of the world, and these war debts must not be regarded as a destruction of the productive powers of mankind. If the United States issued twenty-five billions of bonds, and these bonds are held by citizens of the United States, it is merely a question of distribution, and the values of the United States and its productive power is not diminished; on the contrary, it has been greatly increased by the war. The same is true of France and of Italy and of Belgium.

#### MAINTAIN FIXED PER CAPITA CIRCULATION

The Federal Reserve Board by exercising its powers could stabilize the per capita circulation of the United States at a fixed amount per capita, and this policy ought to be adopted as a means of preventing instability due to a fluctuation in the amount of currency.

The per capita circulation of money in the United States in 1890 was \$22.82; in 1900, \$26.93; in 1910, \$34.33, due to the inflation of the national bank currency against the 2 per cent bonds offered as a remedy in 1900 to confound the free-silver advocates. In 1914 it was \$34.35 per capita. In 1918 it was \$50.81, due to an expansion of \$11 gold per capita and about \$5 of Federal reserve notes issued to accommodate the actual daily demands of commerce. The high cost of living and the doubling of prices required more currency, and the reserve notes accommodated this demand, but being subject to daily liquidation could not be justly regarded as inflation.

In fact, the Federal Reserve Board points out that the actual per capita circulation outside the United States Treasury and the Federal Reserve System is only \$45.56, which corresponds with the circulation of 1914 plus \$11 of gold per capita increase. It is of great importance that the per capita circulation should be kept stable. The ruinous effects of inflation are shown in Europe.

#### EFFECT OF CREDIT EXPANSION ON PRICES

Credit expansion and the issuance of Government bonds and certificates was unavoidable during the war, and was required by the tremendous energies created by war. But these credits while less mobile than currency are nevertheless transferable and are a means by which currency is more readily accessible, and it has the effect of modifying to some extent the purchasing power of money. The conditions would be more stable if these bonds were issued payable in 50

years with the right of the Government from time to time to take things up, as interest rates will fall when stability is established throughout the world.

Bank deposits and loans were greatly stimulated by the war because commodities of all kinds were salable at high prices and converted into current credits, and the extraordinary activities of the war resulted in corresponding loans, all of which contributed to making money more readily accessible, and therefore of less purchasing power in relation to commodities and in relation to human labor. These factors should slowly adjust themselves as cost factors by increase of production and improved distributive processes.

### PRODUCTION AND DISTRIBUTION

Now that the urgency of war has passed, prices should adjust themselves to the processes of reconstruction. Industry can now adjust itself to the conditions of peace and should steadily increase production and improve distribution. The world is rapidly replacing the ships destroyed by war. The millions of European men and women heretofore engaged in war and war activities are now available for peace.

Increased production and better and more economical distribution and waste avoidance are the chief remedies for the high cost of living, and to accomplish this the banks of the United States should encourage production by extending credits preferentially for productive processes, for improved warehousing, lending against warehouse receipts, and using their good offices and friendly counsel to stimulate production and improved distribution. The encouragement of corn clubs and other agricultural clubs, encouraging boys and girls to make money out of raising pigs, chickens, and so forth; improving gardens, while apparently small matters are of great national consequence, and the country bankers have done fine work along these lines. Developing water power and the use of the current for industrial purposes are productive processes of the highest order. The building of hard-surfaced roads and the use of motor trucks facilitate distribution. There should be organized standard systems of distribution by improved marketing methods under Government charter and supervision.

### LABOR, MANAGEMENT, AND CAPITAL

Labor is both manual and mental, and is entitled to full consideration.

The unrest of labor, due to the war condition, to the extraordinary prices during war times, the reports of extraordinary profits during the war by the employers of labor, and the high cost of living should be met by encouraging a frank and free discussion and arranging methods by which labor will participate in what it produces above a bare wage. The employee should not be regarded merely as a money-

making machine, but altogether as a human being entitled of right to life, liberty, happiness, and a reasonable participation in the profits arising from his labor. This policy is advisable for the sake both of the employer and the employee. When the workman feels that he is working both for himself and his employer he will not indulge in sabotage, the killing of time, or in waste and neglect. Labor, management, and capital must work together on the principle of service to all mankind, along lines of cooperation in a spirit of friendship, mutual sympathy, and support. It will not do in a democracy to rely merely on the powers of government and to demand brute force to control human unrest. That remedy may become a two-edged sword peculiarly dangerous to capital.

The doctrine of arbitrary force should not be seriously entertained by thinking men after the lessons of this war. The world is entering into a new era in which humanity and righteousness should walk hand in hand in peace, protected by the powers of the people.

Humane legislation to safeguard and advance the conditions of human labor should be encouraged in Congress, in State legislation, in municipalities. If labor should be found seeking employment for any reason the Government should not hesitate to expand its activities in road building, improving waterways, building water-power plants and auxiliary enterprises, and employ labor to the extent of absorbing unemployed labor, and protect labor from the forced and destructive competition arising from involuntary unemployment.

Every productive activity in America should be kept employed, and concrete steps taken to accomplish it. This is the most direct path to overcome the high cost of living.

There should be put on a campaign in the United States by moving pictures and on the forum, in the press, and in the pulpit to teach men the dignity and need for honest labor and production and the shame of waste, the dishonor of willful extravagance, and the discredit of the vain ostentation of wealth, so that people will come back to the virtues of our fathers and our mothers who regarded labor as honorable and waste as a sin. The enormous disproportion of wealth distribution in America has led to false standards of extravagance and ostentation, going far beyond the reasonable bounds of mere luxury.

Men who create the values sufficient to sustain it are entitled to luxury, if they choose to have it, and it is a wise policy for the world to encourage acquisition and hold out the rewards of property and the protection of property for those who serve the world by creating values. When acquisition passes far beyond the rewards that encourage effort, it may become a vice and need to be abated by suitable restraints.

### EXCESS-PROFIT TAX

The excess-profit tax and some other governmental taxes add directly to the high cost of living, because the manufacturer adds his excess-profit tax onto the price of his product plus a manufacturer's profit on the excess tax. The broker passes it along and adds his profit on the excess tax. The wholesaler adds his profit on the excess tax, and the retailer adds his profit on the excess tax, and the poor consumer wonders what is the matter with the world that prices have risen a hundred and twenty-nine per cent since the war began. It is merely a matter of "let George do it," and "George," in the person of the Railway Brotherhood, comes in and demands the right to pass it on to the railroads, and the railroads pass it on to the freight rate and the passenger rate and let another "George"—the people—pay it. It is a vicious circle which can only be cured by human labor, conscientiously performed, by production, by economic distribution, by economy, but since the excess-profits tax is charged on the consumer, it should be repealed, and the war taxes instead of being collected to liquidate the principal of the war debt in a few years should be extended over 50 years. Every governmental waste and extravagance and employment of unproductive labor falls on the consumer and adds to his high cost of living. Therefore, the Government should be economically administered, a fixed amount set apart in a budget beyond which the expenditures should not be permitted to go. A householder who turns his checkbook over to his children need not be surprised if his expenditures exceed his income where there is no check on improvidence. The Government's expenditures should be subjected to a constant supervisory audit, expressly charged with the elimination of waste.

In lieu of the excess-profits tax a progressive inheritance tax should be employed, first, to meet the cost of Government, and, second, to prevent by inheritance excessive commercial and financial power passing into the hands of a single individual to the injury of his fellow men.

### PRIVATE MONOPOLIES

One of the most important elements entering into the high cost of living are the private monopolies which have established control over various industries dealing with the necessities of life. The danger to the public of unrestrained private monopolies has long been recognized, and decades ago an act of Congress was passed to prevent market domination and arbitrary prices by the Sherman anti-trust law. The effect of this act was nullified by administrative neglect and failure of public opinion in part. It was never really enforced, and finally the Supreme Court nullified it by holding that Congress only intended to forbid restraints of trade which were "unreasonable." Since there was no standard of what constituted a "reasonable" restraint

of trade, this law is now but little more than a smoke screen behind which private monopolies may exercise their powers without restraint of law. It should be frankly repealed and better laws substituted.

Bankers are not permitted to charge over 6 per cent under the law, some States permitting by contract a higher rate. The banker renders the highest character of service, and yet, with the approval of all of the world, he is limited in his profits. I remind you gentlemen of the banking profession that the value of your private fortunes has been cut in two by the high cost of living, and that if you were worth a hundred thousand dollars before the war that hundred thousand dollars is only worth today what fifty thousand was then, so that you are as much concerned in improving the purchasing power of your dollar as any other citizen. Even if you have a private monopoly, it would be better for you that the dollars you receive in future should have an increased purchasing power, and it is to your interest to favor stability and commercial justice.

Many of the monopolies prevent production, and by making the things desired by men somewhat scarce they get a higher price for it and a larger percentage of profit. They would rather make a hundred per cent on a fixed output than 25 per cent on four times that output. They control the trade and therefore competitors do not enter the field, and, I might add, dare not. This policy of diminished production and high percentage of profit is one of the most harmful forms of monopoly abuse. The southern cotton growers were urged to cut down the production of cotton because 11,000,000 bales are worth more than 15,000,000 bales in a cotton crop. There is no danger whatever of the farmers profiting by monopoly. They are too numerous, and adequate cooperation, therefore, is impossible to prevent the working of the broad law of competition.

If the high cost of living is to be controlled, the monopolies and interstate commodities will need to be restrained by suitable administrative mechanism authorized to require standard reports and the limitation of profits to a point that is "reasonable."

It will be far better for American monopolies to expand production and limit percentage of profit and lower the cost of living and increase the purchasing power of their own earnings and capital. Four times the production at 25 per cent profit is better than one production at 100 per cent profit. We must compete in the world markets, and lower cost is essential to do this. If the prices are not lowered, foreign countries will take foreign commerce and invade American markets and be welcomed by American consumers. American business men should have some vision and foresight.

Under the high cost of living labor has become more and more discontented. Unions are being organized to include every governmental agency, even the fire department, the police, and the municipal,

State, and Federal employees, and they make demands upon the representatives of the people which are not always consistent with the public interest, or the interest of the great majority of the people. The average farmer does not begin to receive as much as a worker in the steel mills or on the railways. The railway workers would like the farmer to receive less for his products, if necessary, to reduce the cost of his living. The interest of one class conflicts with another. But when groups representing special interests combine to coerce the Government it should be possible for the Representative to defend himself before the electorate, and his critics should have the right to show his alleged unfitness with a "publicity pamphlet," printed and distributed, at public expense, to every voter.

All democracies are about to be compelled to take their choice between the rule of the majority and the rule of the minority. The rule of the minority in Germany led to war. In Russia it has led to chaos. In the one case it was the rule of a minority representing the apotheosis of wealth and dynastic pride. In Russia now it represents the exact reverse. In both cases it represents a gigantic example of dangerous instability of government.

The middle course of honest majority rule carries out the fundamental conception of our fathers in establishing government in America where the sovereignty was vested in the people and not vested in the few, whether dynastic military leaders, whether a few great financial and commercial captains, or the desperate Bolsheviks.

The overwhelming majority of men and women in America believe in God, in morality, in religion, in ethical conduct, in conscience, in justice, in mercy.

The overwhelming majority desire to acquire and protect property rights, and are willing to labor for it, and will support property rights. Stability in government requires the development, the perfection, the maintenance of the government of the majority, giving the people the right to initiate any law they want, to veto any law they do not want by referendum. The "right of recall," means to recall any official who in public opinion has ceased to be desirable as a representative of the people. The laws should provide a short ballot, so that the people can function in choosing a small number whose records they may have time to study, and so that the people are not confused by the machine politician who would put up a long list of candidates for the very purpose of confusing the people and compelling them to rely on the machine men to nominate "the ticket."

The laws should provide the preferential ballot, which automatically coheres the majority and automatically defeats the machine politicians who are always in a minority, except when by actual intent or by accident they do right.

The law should provide a thorough-going corrupt-practices prevention

act to safeguard the majority against the corruption and fraud of the minority. These processes will give stability in government and in commercial and financial life. They will give intelligence to government, calling the very best men to the public service; will accomplish through the wisdom of the people the development and protection of human life; will abate the high cost of living and make America what it ought to be, the leader in the highest ideals of government, of industry, of finance, and of human happiness.

MR. McCULLOUGH, (Indiana): Mr. President, I move that a vote of thanks be given Senator Owen for his brilliant address.

(A rising vote of thanks was given to Senator Owen.)

PRESIDENT MADDOX: The next speaker is one who is doing a great work to bring the republics of this country closer together. He has distinguished himself as a statesman in many parts of the world and his diplomatic dealing with other countries has brought America to the forefront. He is now engaged in bringing about closer relations, socially, commercially and financially with our sister republics to the south. I take great pleasure in introducing to you Hon. John Barrett of Washington, Director General of the Pan-American Union.

## PAN-AMERICAN FINANCIAL AND COMMERCIAL RELATIONS—AMERICA'S GREAT FUTURE OPPORTUNITY

JOHN BARRETT

Following the masterly review of President Maddox, and the constructive addresses of Governor Harding and Senator Owen, may I say a word concerning the magnificent potentialities of Pan-America, of "All America," where today, as never before, the United States is becoming a master leader and friend.

For eighteen years I have been associated officially with the Latin American countries. I have learned to love them and their peoples, as I love my own country and my own people; but I am aware, as I travel up and down this land addressing chambers of commerce, boards of trade, women's clubs, universities and colleges, that we have only just begun to realize the overwhelming potentialities of the southern republics. Let me cite just a few facts not generally appreciated:



Inside of Brasil, the largest country of South America, you could, so to speak, place the connected area of the United States and still have room left over for Missouri. While an average ocean steamer cannot safely go above New Orleans on the Mississippi, vessels drawing twenty-two feet of water can steam 2,200 miles up the Amazon. Rio de Janeiro, the capital of Brasil, is located upon the most beautiful harbor in the world with a population of 1,500,000. Argentina has a greater reach from north to south in the southern temperate zone than has the United States in the northern temperate zone. Buenos Aires, its famous capital, has a population of nearly 2,000,000, and ranks as the first Spanish-speaking city of the world. It is the second Latin city, ranking after Paris, and divides third place of American cities, after New York and Chicago, with Philadelphia. Chile is also located largely in the southern temperate zone, and has a greater reach from north to south than the United States from Florida to Maine. Into Bolivia, or Peru, or Columbia or Venezuela could be placed the greater part of France and the German Empire. Mexico would cover nearly all of the southern states of the United States from Texas to North Carolina with the omission of Tennessee, West Virginia and Virginia; and so I might go on making similar comparisons.

The average banker, moreover, does not realize the vast figures of Pan-American commerce; he does not grasp the fact that the United States, even before the World War, was far ahead of both Germany and Great Britain in its trade with the twenty countries of Latin America. The trade of the United States with its sister republics grew from less than \$500,000,000 per annum fifteen years ago, to nearly \$800,000,000 in the last fiscal year, 1913-1914, before the war broke out. In the five years since then it has steadily grown until it has now reached the magnificent total of \$2,000,000,000. This is an increase almost unprecedented in the history of the commerce of the United States with any part of the world; but in order to maintain it, American manufacturers, exporters, importers and shipping men must have the hearty cooperation and support of American bankers and financial leaders.

Do you ask me whether Latin America is friendly to the United States or not? If you do, I reply by asking you, what was the story of the war before the United States entered the struggle? Every one of the twenty Latin American countries was neutral. When the armistice was signed, sixteen of the twenty Latin American countries had actually or morally broken relations with the enemies of the United States, and eleven of these had actually or morally declared war on its enemies.

With these observations, I now proceed to emphasize the fact that in order that the bankers and banking influences of the United States

may comprehend the real meaning of Pan-America and Pan-Americanism, let us have some definitions of significance. If we look upon Pan-America politically, it means the twenty-one republics that reach from the United States on the north to Argentina and Chile on the far south; if we consider it geographically, it means everything from Canada to Chile. Pan-Americanism means the co-operation of all of these countries for the good of each and all of them and thereby for the good of all the world. "Pan-Americanism" and "Pan-America" are used as terms instead of "All-Americanism" and "All-America," because the prefix "Pan" is common to the Spanish, Portuguese and English languages, whereas "all" is known only to English. Pan-Americanism, in its broad sense, in short, includes everything from the northern to the most southern end of the Western Hemisphere.

Naturally the question arises as to the scope and responsibility of the Pan-American Union, of which I have the honor to be the executive head. Let us therefore realize what the Pan-American Union means. It is the official organization of the twenty-one independent American republics, devoted to the development of good understanding, friendship, commerce and trade, and peace among them all. It works for the good of the Pan-American republics, just as a Chamber of Commerce works for the good of any particular city. It is not antagonistic to the rest of the world any more than a chamber of commerce of a city is antagonistic to other cities. It desires to promote the cooperation of Pan-America should meet the approval of the rest of the world.

The Pan-American Union is controlled by a Governing Board, composed of the Secretary of State of the United States, and the diplomatic representatives in Washington of the other American republics. It forms the Supreme Council, so to speak, of the Western Hemisphere and nations, and it meets the first Wednesday of every month, except those of the summer season, to consider Pan-American problems. That it constitutes a practical League of Nations is evidenced by the fact that since it first met, there has been no war between any two American republics, and it has prevented many wars among themselves. The Pan-American Union is housed in a beautiful building at the foot of Seventeenth Street, in Washington, which the greatest French architect has described as "combining beauty of architecture and usefulness of purpose more than any other public building in America." Will every American banker realize that this building is always open to him and that this staff is ready to give him any information he may desire regarding Pan-American relations?

To the bankers of America, I can say that the future development of Pan-American relations, Pan-American commerce and Pan-American co-operation depends to a large degree upon them. It is all right to loan money to countries of Europe and Asia, but the countries of Latin-

America should be your first consideration. In the same way that a parent, a brother or a sister thinks of aiding the members of his own family, the United States bankers and financiers should think of aiding the bankers and financiers of the sister republics of Latin-America. There may be an attraction about Europe and Asia that would lead the banking and financial interests of the United States first to these countries, but, when it comes to the vital interest, we should have first consideration of Central and South America. When it is remembered that every country of Latin-America was aided by the United States in establishing its independence, that every Latin-American country wrote its declaration of independence and its constitution upon that of the United States, there is an appeal that comes from no European or Asiatic country.

In the same manner that the central West in its early development demanded money and banking privileges from the eastern states of the United States, and that the far western states demanded similar aid from the central west so, correspondingly the countries of Latin-America require the money and cooperation of the bankers and financiers of the United States, from New York to California.

I must be frank and say that unless the bankers and financiers do their part in caring for Latin-America, they will be supplanted by the moneyed men and cooperation of Europe and Asia. Numerous American banking institutions have established branches or agencies in Latin-America, and this must be extended until the competition of Europe and Asia is adequately met. The banking institutions of the Atlantic Coast have already shown a most progressive spirit in establishing branches and agencies throughout Latin-America. The central West and Pacific Coast must do the same thing if they would play their part in the development of practical Pan-Americanism.

I indulge in no exaggeration when I say that if the American banking and financial interests will invest in, or loan, a billion dollars to Latin-American governments and legitimate Latin-American enterprises during the next five years, they will increase American commerce a billion dollars in the same period.

It is of the highest importance that the American bond buyer should be educated to the stability of Latin-American bonds and investments, and no step must be neglected to educate the American public to the quality of these bonds and investments. It must be borne in mind that there have been no instances of Pan-American failure to make good in Pan-American investments, and that there has been no serious revolution impairing United States investments in Latin-America during the last thirty years, except in one or two countries, and in these the outlook is more optimistic than pessimistic.

In conclusion, permit me to make a few suggestions that may appeal to the American Bankers Association:

1. Let the American Bankers Association at its Convention in 1920 or 1921, invite ahead, in time for their acceptance, representative bankers of the twenty Latin-American countries, to attend and participate in their sessions, with a special Pan-American session which will consider Pan-American problems of banking and finance. In other words, let the next Convention of this organization be a Pan-American or international gathering.

2. In the meantime, let the bankers, financiers and investors of the United States make every effort to visit the Latin-American countries, study their material, political, financial and general conditions, and in turn, let the bankers, financiers and others of Latin-America visit the United States for corresponding information.

3. Let every North American banker or investor, provided he cannot go to Latin-America, study the history, the past and present condition and the future possibilities of the Latin-American countries, and realize the importance of the co-operation of the United States and Latin-American countries for the good of themselves and the good of the world.

**PRESIDENT MADDOX:** I have just received a letter from General Pershing that I will read for the information of the Convention.

"My Dear Mr. Maddox:—I received your wireless sent through General Dawes, inviting me to address the convention of the American Bankers Association at St. Louis. I appreciate the pleasure that I would have derived from this meeting with the bankers of America who have so patriotically and loyally stood behind the Government financially and otherwise, but I find that many official matters have been held up awaiting my return. I thank you most sincerely for your cordial invitation and regret my inability to accept at this time.

"Very sincerely,  
"JOHN J. PERSHING."

As is customary at this time, I will announce the Committee on Resolutions: Festus J. Wade, St. Louis, Chairman; Lucius Teter, Chicago; W. J. Blalock, Atlanta; J. H. Ardrey, New York; W. E. Knox, New York; W. D. Longyear, Los Angeles;

Clay H. Hollister, Grand Rapids. Resolutions will be presented to that committee as they appear.

The reports in the program to which I have already referred will not be submitted to you other than in their printed form.

(The reports referred to appear at the end of this session.)

The Secretary has a few announcements to make.

**GENERAL SECRETARY FARNSWORTH:** The following letter is from the National Foreign Trade Council, Secretary O. K. Davis: "I am very anxious, if possible, to bring to the attention of the delegates assembled for your convention the fact that the Seventh National Foreign Trade Convention will be held in San Francisco, May 12-15, 1920, emphasizing the fact that the banking sessions of our conventions have always been run in cooperation with the American Bankers Association."

The meeting was then adjourned.

## ANNUAL REPORT OF THE GENERAL SECRETARY

### FRED. E. FARNSWORTH

Gentlemen: In accordance with the requirements of the constitution, I submit herewith a report of the progress of the American Bankers Association during the fiscal year commencing September 1, 1918, and ending August 31, 1919, together with such other matters as pertain to the office of General Secretary of the Association.

Speaking broadly, the Association is to be congratulated on having enlarged its points of contact with national affairs during the past year, as a result both of committee work and the efforts of its officers. Further, in carrying out a new policy of field work, closer and more cordial relations have been established with state bankers' associations and other organizations; problems involving relations between national and state chartered institutions have been put in a fair way of amicable adjustment; and last but not least, our membership has passed the 20,000 mark, bringing so much nearer the day when membership in the American Bankers Association will become unanimous throughout these United States.

With the Association, as with the nation and the whole world, we are passing through a period of readjustment and reconstruction in which time and patient, painstaking endeavor are essential to the solution of the problems confronting us.

### FIELD WORK

One of the most important accomplishments of the year was the carrying into execution of a plan of field work by utilizing the members of the executive staff in the general offices at New York. This, in turn, required close study by the Office Conference, a semi-monthly gathering which has proved its value many times. Under the direction of the Office Conference, and with the approval of the Administrative Committee, the several section secretaries and department heads were assigned to attend state conventions, the schedule being arranged with a view to securing maximum representation at a minimum of expense. In cases where we were informed that the convention would be attended by the President or Vice-Presidents, no representative was sent from the central office. By this method, and without duplication or undue expense, the American Bankers Association has been represented at the conventions of thirty-five bankers' associations. There is no doubt that the results have been highly beneficial; a direct contact has been established with all these state associations, in numerous cases the membership has been increased through better understanding of the scope of A. B. A. work, and in general it may be said that the plan has justified every expectation and should be continued.

### THE STATE BANKS

At the spring meeting of the Executive Council of the Association last May, steps were taken which resulted in the formation of a conference committee on which were representatives of state chartered institutions, including representation from the Trust Company Section, State Bank Section and Savings Bank Section. Out of this conference and the spirit of co-operation which it typifies has come a better understanding of the needs of the state institutions and all differences, real or imaginary, between them and their national brethren are rapidly disappearing, if, indeed, they have not already done so.

### WASHINGTON OFFICE

During the past year the National Bank Section, acting under instructions from its Executive Committee, established a branch office of the section at Washington, D. C. It is located in the Southern Building and is in charge of Major Frederick W. Hyde, secretary of the National Bank Section, who divides his time between the New York and Washington offices. It is a pleasure to say that in the short time since its establishment the Washington office has rendered excellent service, both to members and to officers. The success of this move has led to a desire for a similar service on the part of the State Bank Section and I understand that steps to this end are now in contemplation.

## EXECUTIVE COUNCIL

The spring meeting of the Executive Council was held at White Sulphur Springs, West Virginia, May 19, 20 and 21 and a comprehensive report of its deliberations was published in the *June Journal*. The high percentage of attendance and the close attention given to the business of the Association are sufficient evidence of the value and importance of these meetings.

When the new Council meets as constituted at present, for organization after the adjournment of this Convention, it will comprise 36 members in the one-year class, 36 members in the two-year class, 35 members in the three-year class, and 22 ex-officio members, making a total of 129. This is an increase of seven over last year. In Arizona, the membership of the Association was increased to 100, thus entitling that state to an independent representation on the Council, but the election for this additional member cannot be made until the convention of the Arizona Bankers Association to be held November 3-4. In Nebraska, the membership was increased to allow for an additional representation on the Executive Council, but the election for this extra member cannot be made until the next convention of the Nebraska Bankers Association. In Oklahoma, the membership was increased to allow for an additional representation on the Council, but the election for the extra member cannot be made until the next convention of the Oklahoma Bankers Association to be held in May, 1920. When these three elections have been made, the grand total of membership on the Executive Council will be 132. The other seven states that increased their membership to allow for an additional member on the Executive Council are: California, Colorado, Indiana, Iowa, Kansas, Minnesota and Pennsylvania.

Analyzing the increase in membership by states, we find that Pennsylvania comes first with 101 new members, a total of 1,112; Oklahoma is second with 99 new members, a total of 713; Iowa stands third with 97 new members, a total of 1,100; Missouri is fourth with 67 new members, a total of 813; Texas is fifth with 61 new members, a total of 789; Minnesota is sixth with 56 new members, a total of 731; Nebraska is seventh with 54 new members, a total of 712; then comes South Dakota with 43, a total of 462; Kansas and New York with 39 each, a total of 908 and 1,139 respectively; North Carolina with 37, a total of 338; Illinois with 31, a total of 1,176; and Montana with 30, a total of 381.

As last year, Illinois stands first in the membership of the Association with 1,176; New York is second with 1,139; Pennsylvania is third with 1,112; Iowa is fourth with 1,100; Kansas is fifth with 908; Missouri is sixth with 813; Ohio is seventh with 793; then follows Texas with 789; Minnesota with 731; Oklahoma with 713; Nebraska with 712; and California with 707.

Alaska and the District of Columbia enjoy the distinction of having every bank a member of the Association; Nevada has only two non-members; Arizona and Rhode Island three non-members each; Delaware 6 and New Mexico 8.

The increase in Association membership through the efforts of the various Sections and officials of the Association by applications known to have been received through their labors for the fiscal year ending August 31, 1919 (14 new members and over), is as follows:

Sections of the Association (of which the National Bank Section secured the largest number) 102.

L. A. Andrew, State Vice-President for Iowa, with the assistance of the A. B. A. Membership Committee in his state, of which he is Chairman; also the County Chairmen.....	80
Harry J. Haas, vice-president First National Bank, Philadelphia, with the aid of Messrs. F. F. Brooks, B. M. Marlin, A. C. Robinson and Jos. Wayne, Jr.....	64
E. P. Gum, secretary Oklahoma Bankers Association.....	32
H. A. McCauley, State Vice-President for Oklahoma and Chairman of the Membership Committee for Oklahoma.....	23
M. Plin Beebe, State Vice-President Elect for South Dakota.....	17
Cliff W. Gress, member Executive Council for Minnesota.....	14
Jas. A. Gray, vice-president Wachovia Bank & Trust Co., Winston-Salem, N. C.....	14

The known credit for the greatest individual accomplishment in the membership campaign for the year belongs to Mr. H. J. Haas, vice-president First National Bank, Philadelphia, who secured 48 applications.

#### SECTIONS

The year just closed marks the first in which the sections have been represented on the Administrative Committee of the Association. The results secured certainly justify the action of the convention last year in adopting the amendment which made this innovation possible, for never before has there been such team work, harmony and cooperation among the sections. And in this connection I believe it is appropriate at this time, at the close of my twelfth year of service to the Association, to pay a well-deserved tribute to the work of the Administrative Committee, upon which have been thrown for solution by the Council as well as the Convention, many thorn-covered problems, most of which involved possibilities of all kinds of trouble. There are more men now on the Administrative Committee than at any time since its creation, but through its very nature this committee is bound to have thrust upon it many onerous duties which are not always understood. I bespeak for this committee, therefore, the appreciation which it so richly merits at the hands of this convention.



Inasmuch as the several sections will present full and detailed reports to you through their accredited officers, it is not necessary for me to enlarge on their work. All have given this year an unusually high degree of service to their respective members. Through the resignation last winter of Jerome Thralls, secretary of the Clearing House and National Bank Sections, the secretarial work of those two sections was separated. Major Frederick W. Hyde, of Jamestown, N. Y., was made secretary of the National Bank Section, and Amos F. Hill, of Lowell, Mass., was made secretary of the Clearing House Section. Both of those gentlemen have acquitted themselves excellently in their respective stations. On September 1, this year, there became effective also the resignation of Milton W. Harrison, secretary of the Savings Bank Section. His successor is Leo Day Woodworth, whose qualifications promise that he will measure up to his new post in every way.

#### STATE SECRETARIES

The secretaries of the state bankers' associations, of which there are now fifty—one for every state and the District of Columbia and Alaska—have been of constant help in certain branches of association work in which their co-operation is practically indispensable. The General Secretary has made it a point to keep in touch with these organizations and at every opportunity to maintain the cordial relations that now exist between the American Bankers Association and the state associations.

#### LEGAL DEPARTMENT

During the past year, in spite of arduous legislative work, General Counsel Paton has been able to complete and bring out in book form a digest of legal opinions published by him in the *Journal* of the Association during the past eleven years. From the demand for copies of this book it is evident that the members are highly appreciative of the excellent quality of the work which Judge Paton renders.

#### PROTECTIVE WORK

The work of the Protective Department has been unusually heavy in recent months because of the widespread epidemic of burglaries and hold-ups. The department has acquitted itself well in the face of this additional responsibility and will inform you more fully of its work in its printed report.

#### THE LIBRARY

The Library of the Association, during the past year, has made a distinct place for itself along the line of Association service. Its best known phase, perhaps, is that which appears in the monthly *Journal* under the title "Library Limelight," and which has to do with fur-

nishing books, pamphlets and miscellaneous information to inquiring members.

#### COMMITTEES AND COMMISSIONS

This has been a busy year for all committees. The Agricultural Commission has continued its splendid efforts in behalf of banker-farmer work and is performing a task of vital service to the nation. The Insurance Committee continues to look after the interests of the members in a most important branch of their business and has done well in this field. The newly appointed Committee on Commerce and Marine has taken hold of the stupendous problems of foreign trade and commerce in a manner that promises results commensurate with the high ability of the gentlemen who compose the committee. The legislative committees, Federal and state, and the legislative councils, have been fully occupied in safeguarding the interests of the banks during the progress of far-reaching legislation. Throughout all the committee work there has been in evidence this year a spirit of energy and co-operation that augurs well for the continued progress of the Association.

#### FINANCES

Perhaps of all difficult tasks, the most onerous has fallen to the lot of the Finance Committee. Confronted with the necessity for finding additional revenue for the Association to enable it to meet the increased expenses due to natural growth as well as the generally higher cost of living, the Finance Committee at the spring meeting of the Executive Council devoted a great many hours to studying the Association's needs and finally decided to recommend an increased schedule of dues for all members paying more than ten dollars per annum. The proposed new schedule has been presented to you in printed form so that it may be carefully studied; and when you come to act upon this particular recommendation it is the earnest hope of the Finance Committee that you will bear in mind that the necessity for these increases was arrived at by the gentlemen of the committee only after the most serious consideration, and that their recommendations merit your approval.

The report of the Treasurer shows a cash balance for the year of \$1,131.81 as compared with \$6,449.22 at the close of the fiscal year 1918.

#### THE JOURNAL

The JOURNAL has cost the Association during the past year about \$19,000 as compared with \$35,000 the year before. In view of the high cost of printing, paper and all other items this is a marvellously fine showing and is, of course, due to the revenue from advertising, which for this first full year of advertising patronage amounts to \$17,500. Under the guidance of the JOURNAL Committee which was appointed

at the last Council meeting to supervise articles and advertisements, the JOURNAL is now progressing satisfactorily and has passed out of the realm of controversy and criticism. Instead of complaints, we now receive commendation for various useful features in the JOURNAL and for the generally conservative character of its policy. This happy condition is due in no small measure to the patient effort and tactful management of the present editor.

It is worth noting that the cost of the JOURNAL to the Association for the past year, \$19,000, represents less than one dollar per member. In my opinion the only thing required of us now is to develop and safeguard the JOURNAL as one of the most valuable commercial assets of the Association.

#### MEMBERSHIP

August 31, 1918.....	19,043
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*Erased from the rolls through failure, liquidation, consolidation and withdrawal, December 1, 1918.....	1,105
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Membership .....	17,938
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August 31, 1919, new members gained during the year.....	1,464
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*Regained members (secured from the above)....	812	2,276
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August 31, 1919, membership.....	20,214
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A net increase for the fiscal year.....	1,171
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A net loss for the year in failures, consolidation, etc.	128
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A net loss for the year in delinquents.....	165	293
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Making the actual gain in new members.....	1,464
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I wish to call your attention particularly to the figures just given, relating to the list of delinquents—those who refused to pay their dues for the last fiscal year. There were 165. These figures are related to the membership on August 31, 1918, of 19,043. It will be noted that the proportion of delinquents, as compared to the membership, is very small, which is the best evidence of the appreciation of our members in maintaining membership in this organization.

While the membership in the Association is larger than ever before, the usual list of losses in membership by failures, consolidations and liquidations is small for the past fiscal year 1918-1919; this list being 128. While the number in 1917-1918 was 132 and for 1916-1917, 137. The total net losses, as shown in this report, are 293.

The aggregate resources of our membership are estimated at \$27,000,000,000.00.

The membership and resources of the Association have increased as follows:

	Paid Membership	Annual Dues
September 1, 1875.....	1,600	\$11,606.00
August 31, 1907.....	9,251	150,795.00
August 31, 1918.....	19,043	320,840.00
August 31, 1919.....	20,214 (Estimated)	409,380.00

## INCOME

Interest on Bonds.....	\$3,680.00
Interest on Bank Balances (estimated).....	3,000.00
Estimated Annual Dues for Fiscal Year Ending August 31, 1920 .....	409,380.00
	<hr/> \$416,060.00

## ROUTINE WORK

During the fiscal year just ended we sent out from the General Offices more than 625,000 letters, circular letters, Proceedings, Journals, etc.

The following states were visited by the officers of the Association, and embodies the state convention sessions of 1919:

## STATE CONVENTION SCHEDULE

STATE	NAME OF PERSON ATTENDING
ALABAMA .....	President Maddox
ARKANSAS .....	F. W. Hyde
CALIFORNIA .....	L. A. Mershon
CONNECTICUT .....	General Secretary Farnsworth A. F. Hill.
DELAWARE .....	George E. Allen
DISTRICT OF COLUMBIA.....	George E. Allen
FLORIDA .....	General Secretary Farnsworth
GEORGIA .....	President Maddox
IDAHO .....	L. A. Mershon
ILLINOIS .....	President Maddox
IOWA .....	L. A. Mershon
KANSAS .....	First Vice-President Hawes
MARYLAND .....	M. W. Harrison
MASSACHUSETTS .....	General Secretary Farnsworth A. F. Hill
MICHIGAN .....	A. F. Hill
MINNESOTA .....	F. W. Hyde
MISSISSIPPI .....	F. W. Hyde
MISSOURI .....	First Vice-President Hawes
NEBRASKA .....	First Vice-President Hawes
NEW HAMPSHIRE.....	W. G. Fitzwilson
NEW JERSEY.....	M. W. Harrison
NEW YORK.....	F. W. Hyde General Secretary Farnsworth A. F. Hill

NORTH CAROLINA.....	F. W. Hyde
OHIO .....	F. W. Hyde
OKLAHOMA .....	First Vice-President Hawes
OREGON .....	L. A. Mershon
PENNSYLVANIA .....	W. G. Fitzwilson
RHODE ISLAND.....	General Secretary Farnsworth A. F. Hill
SOUTH CAROLINA.....	W. G. Fitzwilson
TEXAS .....	First Vice-President Hawes
VERMONT .....	M. W. Harrison
VIRGINIA .....	M. W. Harrison
WEST VIRGINIA.....	F. W. Hyde
WISCONSIN .....	T. B. Paton
NEW ENGLAND STATES BANKERS ASSO- CIATION .....	{ General Secretary Farnsworth A. F. Hill

The total number of representatives attending thirty-four state conventions is as follows:

President Maddox.....	3
Vice-President Hawes.....	5
General Secretary Farnsworth.....	6
General Counsel Paton.....	1
Assistant Secretary Fitzwilson.....	3
Secretary Mershon, Trust Co. Section.....	4
Secretary Harrison, Savings Bank Section.....	4
Secretary Hyde, National Bank Section.....	7
Secretary Hill, Clearing House Section.....	6
Secretary Allen, State Bank Section.....	2

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Total representation.....41

#### IN MEMORIAM

It is my sad duty to announce that Death has taken more than his usual toll from our ranks. Two former presidents of the Association—Robert J. Lowry of Georgia, and James K. Lynch of California—have been called to the Great Beyond. From the active membership of the Council we have lost only recently Elbert A. Bennett, of New York. In the list are included also: Nelson N. Lampert of Illinois, J. E. Fox of Tennessee, Albert E. Edwards of California, Walker Broach of Louisiana and Charles E. Hoge of Kentucky, all former members of the Council; and Douglas H. Thomas of Maryland, who was first vice-president of the Association in 1894 and served on the Council 1895-96.

#### ST. LOUIS

Since the organization of the American Bankers Association at Saratoga Springs, N. Y., in 1875, including the present convention, we have

held three of our annual meetings in the city of St. Louis—in 1896, 1906 and 1919.

The bankers of the city of St. Louis have been active and efficient participants in the activities of the American Bankers Association for very many years. The sixth President of the American Bankers Association was Charles Parsons, president State Bank of St. Louis, in 1888. Walker Hill was President in 1899. F. O. Watts—now a resident of St. Louis, Mo.—was President in 1910, and the late Charles H. Huttig was President in 1912. At the writing of this report, the present First Vice-President of the Association is Mr. Richard S. Hawes, of St. Louis.

When the Association was organized in Saratoga Springs in 1875, St. Louis and Missouri were well represented by delegates. St. Louis and Missouri have been most important factors in the history of the American Bankers Association. Its unparalleled success from its very inception has been largely influenced through officers of the Association and the members of the executive body in this city. For it was in the city of St. Louis that the plan germinated.

Our conventions today are largely attended by the fair sex—our wives, daughters and sweethearts—and it will be gratifying for the women to know that women are responsible for the organization of the American Bankers Association. The idea was inspired by the women. In May, 1875, two tired bankers, after a long day's work, and in a period, as the elder bankers will know, when the bankers and financiers of the country were wrestling with the silver question and the panic of '73, and the resumption of specie payment—these two bankers, Mr. James F. Howenstein, then cashier of the Valley National Bank of this city, and Mr. E. C. Breck, cashier of the Commercial National Bank, were going up Olive Street, and passed the old auditorium—which, I believe faced on Olive Street in 1875. As they neared that institution, they found a large number of ladies in the auditorium. They saw a sign over the door, and it said, "Women's Suffrage Convention." Howenstein said to Mr. Breck, "Breck, if the women can get together and talk over their sorrows and their troubles and what they are entitled to in this country, why is it that the bankers cannot get together at such times as these and by co-operation and organization accomplish what we desire at the present time, the overcoming of the panic and the resumption of specie payment?" Now, the idea of the American Bankers Association came from this incident, and Mr. Howenstein at first, no doubt, was inspired by the ladies. Mr. Howenstein called a meeting of bankers in New York in May, 1875, which meeting was held at the Barnum Hotel. It was simply a conference of some of the prominent bankers, and at that meeting in New York in 1875, a call went out for a convention, which was held in Saratoga in July, 1875, at which there were present 330 bankers, representing thirty-two states.

A temporary organization was effected at that time; a committee appointed, and a permanent organization effected in 1876 at the Centennial in Philadelphia.

Mr. James T. Howenstein was the first Secretary of the organization.

At the convention in 1896, our popular friend, the late Colonel Lowry was elected President. The presiding officer at this convention was President Eugene H. Pullen, of New York City. Members of the Executive Council from St. Louis were Walker Hill and W. H. Thomson. Breckinridge Jones was State Vice-President, and it was at this convention that the American Bankers Association made its famous declaration as to the gold standard. At the close of the convention on September 25, the Association, as a body, visited Springfield, Ill., and the tomb of Lincoln. Several addresses were made by prominent members of the Association, in keeping with the occasion.

Another prominent feature of this convention was the organization of the pioneer of sections—the Trust Company Section—with Breckinridge Jones of St. Louis as its first chairman of its Executive Committee.

At the convention in 1906, the President was John L. Hamilton, and St. Louis was represented on the Council by Walker Hill and H. P. Hilliard. Vice-President from Missouri was F. W. Hixson, of Hannibal, Mo. The most notable and far-reaching action taken at this convention was the appointment of our Currency Commission, which Commission did so much important work in laying the foundation for advanced banking and currency legislation, which resulted in the evolving of the Federal Reserve Act.

St. Louis is naturally a Convention City. Its well-known hospitality is emphasized by the spirit in which the bankers of the community fully co-operate in every way possible to make a convention a success. This co-operation has been very helpful to me in completing the intricate details of convention week, and I want to take this occasion to express my great appreciation of the efforts of the local committees of St. Louis, and for their valuable aid in making the convention of 1919 one long to be remembered.

In conclusion, I wish to extend my sincere thanks to all officers, committee members and individual members, who by their earnest efforts and whole-hearted co-operation have helped to make this a most successful year in the Association's history.

## ANNUAL REPORT OF GENERAL COUNSEL

THOMAS B. PATON

A survey of the Convention year discloses that with the increased membership now exceeding 20,000, the detailed work of the office of

General Counsel has largely increased and more matters have been handled than in any previous year. The volume of business has necessitated a corresponding increase in the office force, which now consists of three Legal Assistants and three Stenographers. The office has a co-operative relationship in an advisory or executive way with nearly every Section and Committee of the Association and the general membership has largely availed of its facilities for legal information, advice and opinions.

#### FEDERAL LEGISLATION

The interests of the Association in connection with the important subjects of legislation before Congress during the past year and now pending which affect banks are in charge of the Committee on Federal Legislation and will be covered in the Report of that Committee. It is the function of the General Counsel, acting as Secretary of the Committee, to aid in operating the machinery which makes its legislative work effective. All bills introduced in Congress affecting banks, either favorably or unfavorably, are digested and submitted to the membership of the Federal Legislative Council and Executive Council as well as to the State Vice-Presidents of the Association and of the Sections in printed form; referenda are issued to ascertain the policy of the Association upon important bills; hearings before Congressional Committees have been attended upon important measures and the views of the Association presented; interviews have been had with particular members of Congress and with members of the Federal Reserve Board and every effort made to assert the policy of the Association in connection with pending legislation.

The Association itself also initiates and urges the passage of certain legislation deemed necessary to the banking interests. This work, of course, is under the supervision and in conjunction with the Chairman and members of the Committee on Federal Legislation who actively participate in the subjects of legislation. During the last few months, General Counsel has been materially aided by Assistant Counsel Paton, who has spent considerable time in Washington in connection with the progress of legislative bills and in interviews with members of Congress and members of the Federal Reserve Board in aid of the promotion of certain specific legislation desired by the Association. The propositions urged, among others, are to amend Section 5219 of U. S. Revised Statutes so that taxation by states of National Bank shares shall not be at a greater rate than upon other property, whether competitive or not, and permitting a proportionate amount of Liberty Bonds and other exempt securities to be deducted from the taxable value of bank shares; also to amend the Federal Reserve Act and Revised Statutes relative to admission of incorporated savings banks to the Federal Reserve System where their capital is insufficient under



existing laws and permitting incorporated savings banks when they convert into national banks, to maintain savings departments and discharge the same functions as before the conversion; also other proposed legislation pertaining to classification of time deposits as savings accounts and the reserve against time deposits.

While important subjects of legislation are submitted by referendum to the members of the Federal Legislative Council and Executive Council for determination as to the stand and policy of the Association, General Counsel is becoming more and more convinced of the desirability of having a definite expression of opinion on every bill affecting banks which is introduced in Congress, from every member of the Federal Legislative Council and of the Executive Council. Such information is necessary to enable the Committee on Federal Legislation to exert its best efforts and to obtain the best results. It is contemplated to adopt a method by which, it is hoped, such full expression of opinion will be obtained.

The Association's Committee on Commerce and Marine has been giving considerable attention to the Edge bill for the creation of Federal banks to do foreign business and to the bills relating to mortgages on ships and the proposed Marine Development Act. General Counsel, as representing the Committee on Federal Legislation, has kept in close touch and conference with Secretary Collins of the Committee on Commerce and Marine in connection with the progress of these bills.

#### STATE LEGISLATION

The office of General Counsel has been actively engaged under the supervision of the Committee on State Legislation of the Association, in promoting in forty-one states which have held legislative sessions this year, a number of bills recommended by the Association. This work has been prosecuted through the members of the State Legislative Council in each state in conjunction with the Secretaries and Legislative Committees of State Bankers Associations and in co-operation in many states, with the heads of State Banking Departments. A comprehensive program of recommended legislation for 1919 was issued last December containing drafts of proposed laws on the subjects recommended with a short statement of the purpose or underlying reason for their enactment and a list of the states in which each draft had not yet been enacted in the recommended or some modified form. Last May there was issued a partial summary of legislation enacted during 1919 based on reports received from members of the State Legislative Council, Bank Commissioners, Secretaries of State Bankers Associations and others. This summary included legislation recommended by the American Bankers Association, other legislation affecting banks and subjects of bills which failed of passage or were still pending at the time the reports were made.

The results accomplished this year have been most gratifying and will be detailed in the report of the Committee on State Legislation. Some fifty enactments of measures recommended by the American Bankers Association have been placed on the statute books of the different states this year and most of these measures are of material advantage to banks in the safe conduct of their business. It is unnecessary in this report to detail or to refer to the salient features of the various bills which have been passed as this would duplicate the report to be made by the Committee on State Legislation. In the prosecution of this work to such successful results there has, of course, been devolved upon the office of General Counsel an enormous mass of correspondence containing advice, suggestions, arguments and explanations in connection with particular bills, many of which have been drafted by the General Counsel to carry out needed reforms in the state laws.

#### CHECKS OF FIDUCIARIES

Owing to the unsettled condition of the law due to conflicting and uncertain decisions bearing on the responsibility of a bank which receives on deposit or pays the check of an officer of a corporation or other fiduciary drawn to his personal order, which turns out to be unauthorized and a misappropriation, the banks, especially in the large commercial centres, have been desirous of procuring the passage of a law which would relieve them from the impracticable duty of inquiry which might be devolved upon them in such cases. The New York State Bankers Association took the initiative in causing a bill to be introduced in the last session of the New York Legislature containing a proposed amendment to the Negotiable Instruments Act which in substance provided that the making of a check by an official or fiduciary to his personal order and his negotiation or cashing of such check at a bank for his personal credit should not put the bank on inquiry as to the authority of the official or fiduciary nor charge the bank with knowledge of any defect in the check. General Counsel, at the request of the New York State Bankers Association, appeared with others in behalf of that Association before the Judiciary Committee of the New York Assembly in favor of the bill and later appeared before the Governor after the bill had passed both Houses.

The bill was opposed by members of the Commissioners on Uniform State Laws on the ground that it was unnecessary and would detract from the uniformity of the Negotiable Instruments Act and the Governor was prevailed upon to veto it. Following this, at the spring meeting of the Executive Council held May 19 a resolution was adopted that the General Counsel draft and the Committee on State Legislation recommend for enactment in the various states where needed, an amendment of the Negotiable Instruments Act or other form of statute which would make it reasonably safe for banks to receive on deposit

or to pay checks drawn by officials of corporations or other fiduciaries to their personal order; further that the General Counsel endeavor to procure the recommendation of such legislation by the Commissioners on Uniform State Laws. In pursuance of this resolution General Counsel prepared a tentative draft of statute and appeared before the Commissioners on Uniform State Laws at their annual session in Boston held August of this year. Under the procedure of the Commissioners no subject of proposed legislation can be presented for consideration by that body until it is first presented to and receives the favorable recommendation of a special committee known as the Committee on Plan and Scope. General Counsel presented the proposed draft to that Committee with arguments in its favor. It is expected that the same will be favorably considered, in which event the procedure will be to refer the subject to the Committee on Commercial Law of the Commissioners who will investigate and make a report at the next annual session of the Commissioners. It is impossible under the procedure of the Commissioners to newly present a subject of legislation and obtain action thereon at the same annual session. The necessary steps to carry out the full purpose of the resolution will be taken by the General Counsel in due course.

#### BILLS OF LADING

The Federal Bills of Lading Act was passed by Congress August 29, 1916, after ten years of effort on the part of the American Bankers Association and commercial organizations. Before the passage of the Act, the railroad whose agent issued either fraudulently or as matter of accommodation to a shipper, a bill of lading for which no goods had been received, was not responsible to a bank or other purchaser who had advanced value on faith of the recitals in the bill. The Act changed the law and provided this rule of liability; it provided negotiability for bills of lading, punished forgery thereof and in many other ways provided an adequate code of law applicable to modern conditions under which the commerce of the country is moved and marketed through the instrumentality of bills of lading and by means of advances by the banks.

Within the last year Section 41 of the Federal Bills of Lading Act which provides for the punishment of any person who forges a bill of lading, has been judicially tested and declared constitutional by the Supreme Court of the United States. A shipper in Cincinnati forged certain bills of lading purporting to represent goods received in Indiana for shipment to Cincinnati by the Cincinnati, Hamilton and Dayton Railway Company and upon these forged bills of lading he procured advances from the bank. When indicted under the Act he demurred on the ground that no crime had been committed because the Federal Bills of Lading Act was unconstitutional and void, espe-

cially Section 41, in so far as it attempts to make it a crime and punish a person who forges a bill of lading where no shipment from one state to another is made or intended. It was asserted that the Act could only apply to bills of lading representing actual shipments of merchandise or commerce between the states and if intended to apply to wholly fictitious shipments, it was unconstitutional and void so far as fictitious shipments are concerned, because the power of Congress to legislate upon this subject-matter is based wholly and solely upon the commercial clause of the Constitution, and if there is no commerce there is no jurisdiction. This demurrer was sustained by the District Court of the United States for the Southern District of Ohio but the Supreme Court of the United States on June 2, 1919, rendered a decision reversing the judgment of the court below and upholding the constitutionality of Section 41 and of the entire Federal Bill of Lading Act.

The American Bankers Association played such a large part in promoting the enactment of this measure that it is peculiarly gratifying to be enabled to record that its constitutionality has been upheld by the highest court in the land.

#### MISUSE OF NAME "AMERICAN BANKERS ASSOCIATION"

Quite recently a case arose wherein it became necessary for the American Bankers Association to protect its name against misuse growing out of a statement on the printed letterheads and circulars of a non-member concern in Texas—the Houston Bank and Trust Company, unincorporated, of Channel City, Texas—that it was a member of the American Bankers Association. This unincorporated concern was formerly a member of the Association but its membership ceased on August 31, 1918.

During the last summer, printed circulars and other literature were sent broadcast over the country by the Houston Bank and Trust Company offering for sale certain oil stock and containing the false and misleading statement that it was a member of the American Bankers Association. The general offices were flooded with complaints from members and others by whom such literature was received criticising these acts, inquiring whether the Houston concern was a member and insisting that steps be taken to stop the circularization of claim of membership in the American Bankers Association in connection with such literature. The telegraphic and written demand of the General Secretary of the American Bankers Association that the issue of circulars containing the unauthorized statement of membership in the Association be immediately stopped, being disregarded, the matter was placed in the hands of the General Counsel, who employed attorneys in Houston, Texas, and an injunction was obtained which was served on the defendant on August 4 restraining the Houston Bank and Trust Com-

pany, unincorporated, of Channel City, Texas, its officers, agents, servants and employees from advertising and circularizing that it was a member of the American Bankers Association. The copy of the injunction order was published in full in the August issue of the JOURNAL of the Association (page 80). Notwithstanding this, for several days thereafter, the defendant continued the mailing of the usual circulars and literature for the sale of oil stock, many of such circulars containing the same false statement of membership, although in some of the circulars issued after service of the injunction an attempt was made to obliterate by striking a line through the words "American Bankers Association." Proceedings were promptly instituted to punish the defendants for contempt for this violation of the injunction, and depositions were taken from a number of bankers who had received such circulars issued after service of the injunction. These proceedings are still pending at the date of the writing of this report (September 13). But since the middle of August the mailing of such circulars appears to have ceased.

#### BURGLARY INSURANCE

Certain technical defects in the Bank Burglary and Robbery Policy of the American Bankers Association copyrighted in 1918, have developed and a movement is under way to revise the policy and copyright a new form. Early in September General Counsel, upon request of the Insurance Committee of the Association, attended a meeting of that Committee at Atlantic City in conference with some twenty representatives of companies throughout the country which write Burglary Insurance, known as the Burglary Underwriters' Association. An all-day discussion took place relating to every feature of the policy and there was a mutual interchange of points of view of the respective interests. The work of drafting a new form is now proceeding.

#### PROTECTIVE WORK

In connection with the work of the Protective Committee in ferretting out criminals who prey upon the general membership, the office of General Counsel is quite continuously employed in matters of consultation and advice as to the interpretation of the criminal laws of the different states, determining the character of particular crimes and the amenability of offenders to punishment. There is close co-operation with Manager Gammon of the Protective Department in this important branch of the work of the Association.

#### SPECIAL FORM OF TAX RETURN FOR BANKS

At the Spring meeting of the Executive Council, upon recommendation of the Committee on Federal Legislation, the General Counsel was instructed to endeavor to procure from the Commissioner of Internal

Revenue the adoption of a special form of income tax blank for the making of returns of banks. This subject has been taken up with officials in the office of the Commissioner of Internal Revenue by Assistant Counsel Paton, and the point has been reached where such officials are willing to co-operate in the creation and promulgation of such a special form. Their objection at first was that if they made a special form for banking corporations, it would set a dangerous precedent for other classes of corporations who would make similar demands, and a further objection was that after a bank had once undergone the labor and trouble of making out its return on the general corporation form for the first year, it had already done all the work and the filling in of forms for subsequent years would be a comparatively simple matter. These objections were met and upon realization that much good could be accomplished by a special form of bank return it was suggested that we present a concrete form which would be approved by the banks. This is the point at which we have now arrived and banks interested in this subject are being requested to offer suggestions as to what should be contained in a special form for banks, or prepare and present a tentative form, so that ultimately an agreed form may be completed suitable for the returns of banks which can be presented to the Commissioner of Internal Revenue with request for its adoption.

#### OFFICE ROUTINE

The Library of the General Counsel is equipped with the complete statutory enactments of all the states, kept down to date, and with reports of decisions of all the courts of last resort since 1909. For decisions prior to that time the facilities of one of the general Law Libraries in the City of New York are utilized. There is also a fairly complete collection of text books on banking, bills and notes and kindred topics. The work of collecting and maintaining an effective law library suited to the particular needs and demands made upon the office has devolved upon Assistant Herrick J. Skinner of the New York Bar, who also has in charge the receipt and classification of all bills, amendments and reports of Committees introduced in Congress affecting banks; also the filing and classifying of the numerous manuscript or unpublished legal opinions which are rendered to the members by the General Counsel upon submitted questions. The number of requests from members for legal advice upon particular transactions involving questions of right or of loss and liability have increased enormously, and Assistant Frank W. Jones of the New York Bar is kept constantly employed under the supervision of the General Counsel in investigating and searching for decisions and precedents applicable to the facts of particular cases submitted which will aid in the solution of the legal problems presented.

## DIGEST OF LEGAL OPINIONS

In pursuance of a resolution of the Executive Council, the legal opinions of the General Counsel which have been published in the JOURNAL of the Association for the last eleven years, have been digested and published in book form. The work of digesting was completed and the manuscript turned over to the printer about the first of July last. Distribution of the book to fill advance orders received began September 5. Pending publication of the Digest and to estimate in advance approximately how many copies should be printed, circulars were mailed to all member and non-member banks describing the Digest and enclosing order blanks, the price being fixed for members at \$2.50 per copy and for non-members at \$5 per copy. It is gratifying to report that down to September 1 the number of orders for the Digest totaled 4,844; that the orders are continuing to come in and sales are constantly increasing; further that a considerable number of non-members have joined the Association to obtain the benefit of the reduced price of the book to members. In fixing the price to members it was not aimed that the Association should derive any substantial profit, but simply sell the book at a figure which would cover the cost. The entire work of digesting and of marketing this book has been in the hands of Assistant Counsel Paton, to whom any credit is due. Stating figures approximately, the gross income from orders to September 1 last, including cash received in advance and amounts receivable, is \$12,250. Of this there has been received in advance approximately \$3,000, leaving bills receivable approximating \$9,250. The total expenses for printing (6,000 copies), wrapping and mailing the book, including clerical services and other incidental expenses approximates \$7,100, which leaves a net income to the Association upon books already sold at the close of the fiscal year of approximately \$5,000. It is to be noted that all the orders thus far received, with slight exception, have been in advance of the issue of the book and simply as a result of circularization. The printing of 6,000 copies has covered this and left a margin of about 1,000 to spare. It is quite probable, now that the book is issued, there will be an increased demand which will call for a second edition.

## ANNUAL REPORT OF PROTECTIVE DEPARTMENT

L. W. GAMMON, Manager

During the period covered by this report there has been a marked increase in the number of crimes against members of this Association, particularly in the burglarizing of vaults, safe deposit boxes and the daylight hold-ups. As a matter of fact, all classes of crime have

materially increased during the past year owing to the unsettled conditions, and I do not look for any let up in crime for some time to come.

#### ARRESTS

For the period from September 1, 1918, up to and including August 31, 1919, I beg to report as to the operations against criminals, as follows:

Total cases not disposed of, arrested prior to September 1, 1918....	150	
Total arrests since September 1, 1918.....	478	
		<hr/>
		628
Convicted .....	273	
Released, escaped, died and insane.....	132	405
		<hr/>
Awaiting trial.....		223

#### BUGLARIES, ATTEMPTED BUGLARIES AND SNEAK THEFTS

Since September 1, 1918, up to and including August 31, 1919, there have been burglaries and attempted burglaries on members, and similar crimes on non-members, as follows:

	Members	Non-Members
Arkansas .....	3	1
California .....	2	1
Colorado .....	1	
Connecticut .....		1
Georgia .....	1	2
Idaho .....	1	
Illinois .....	20	26
Indiana .....	5	11
Iowa .....	3	2
Kansas .....	6	1
Kentucky .....		1
Louisiana .....	1	
Maine .....		1
Michigan .....	3	1
Minnesota .....	1	2
Missouri .....	6	2
Nebraska .....	1	
New York.....	1	2
North Dakota.....	2	6
Ohio .....	3	4
Oklahoma .....	2	3
Oregon .....	1	
Pennsylvania .....	1	



	Members	Non-Members
South Dakota.....	1	
Tennessee .....	3	
Texas .....	1	
Washington .....	4	
West Virginia.....	2	
Wisconsin .....	2	2

Of the attacks on members 50 were successful burglaries, 27 unsuccessful burglaries.

Of the attacks on non-members 46 were successful burglaries, 23 unsuccessful burglaries.

The loss sustained by members in connection with burglaries was \$98,892.29, while the loss sustained by non-members amounted to \$114,496.39.

There have been 54 hold-ups on members, with a loss of \$424,802.72, also 10 sneak thefts with a loss of \$28,175.75.

During the same period there have been 51 hold-ups on non-members with a loss of \$271,733.54.

Our members, as a rule, report all attacks on them, also the exact loss sustained; while on the other hand non-members rarely report attacks on them, or the loss, with the result that we do not obtain a record of some of these attacks or losses.

The following figures are given for your information of reported burglaries and attempted burglaries on banks since the inauguration of the Protective Features, such as are known:

Non-members .....	1791	Loss .....	\$3,707,795.11
Members ..	663	Loss .....	536,390.14
Difference .....	1128		\$3,171,404.97

#### CORRESPONDENCE

During the twelve months ending August 31, 1919, the Protective Department has received 29,910 reports and other communications from our Detective Agents. The Department has also received 1090 letters and telegrams, and written 2621 letters and telegrams. These figures do not include circular letters and similar communications.

#### PHOTOGRAPHS

The Department now has 6350 photographs of criminals, comprising burglars, hold-up men, sneak thieves, forgers and bogus check operators, with a complete record of each.

#### OFFICES OF OUR DETECTIVE AGENTS

The William J. Burns International Detective Agency, Inc., now have 20 offices of their own in this country, as follows: Los Angeles and

San Francisco, California; Denver, Colorado; Chicago, Illinois; New Orleans, Louisiana; Baltimore, Maryland; Boston, Massachusetts; Detroit, Michigan; Minneapolis, Minnesota; Kansas City and St. Louis, Missouri; Buffalo and New York City, New York; Cleveland, Ohio; Portland, Oregon; Philadelphia and Pittsburgh, Pennsylvania; Houston, Texas; Seattle and Spokane, Washington.

They also have special representatives—M. D. Clemens, 820 Fleming Building, Des Moines, Iowa; G. S. Burt, P. O. Box 179, Cincinnati, Ohio; L. F. Squires, 908 Colcord Building, Oklahoma City, Oklahoma; R. L. Wallace, 306 Bank of Commerce and Trust Building, P. O. Box 464, Memphis, Tennessee, and F. F. Dearing, St. George Hotel, Dallas, Texas.

They also have offices of their own in Montreal and Toronto, Canada; and London, England; also special representative C. S. McTeigh, 605 Vancouver Block, Vancouver, Canada.

The Association has a special representative at Atlanta, Ga., L. P. Whitfield, 921 Healey Building.

I wish at this time to thank the Federal, state, county and local authorities throughout the United States for their co-operation, for they have aided this Department very materially in the investigation of cases during the fiscal year.

## ANNUAL REPORT OF THE TREASURER

JAMES D. HOGG

On September 1, 1918, the cash balance was \$6,449.22. On September 1, 1919, the cash in my hands as Treasurer at the close of the fiscal year was \$1,131.81, with all bills paid. In addition, there was a cash balance in the Journal account of \$524, and a cash balance in the pre-paid dues account for 1919-1920 of \$2,704.29 — total cash on hand from all sources, \$4,360.10. It has been deemed advisable this year, acting under authority of the Executive Council, to sell securities owned by the Association for the purpose of liquidating the indebtedness incurred in the First Liberty Loan Campaign and the purchase of the Del Mar Library. The securities sold were the New York City Corporation 3½'s, costing \$25,506.67, for which we received \$25,752.50. There is a deficit on the actual year's business amounting to \$11,315.82.

Drafts to the number of 19,387 were drawn September 1, calling for the payment of \$398,625. This is based on the new schedule of dues, and represents an increase of \$101,585 over last year and an increase of 1,388 in number of drafts.

Again I wish to express my thanks for the honor conferred upon me in electing me to this office. It has been a great pleasure to work with the General Secretary and his competent staff of assistants in the General

offices. I have found them ready to respond to any call and always attentive to the business of the Association.

The list of securities held by the Association follows:

	Carried On			Cost
	Par Value	Books At	Market Value	
Chicago, Burlington and Quincy, Ill. Division, 4's due 1949.....	\$50,000.00	\$47,400.00	\$40,250.00	\$50,843.75
Chicago, Burlington and Quincy, Joint 4's due 1921.....	12,000.00	11,600.00	11,400.00	11,559.09
Atchison, Topeka and Santa Fe, General Mortgage 4's due 1935.....	30,000.00	28,500.00	23,287.50	30,825.00
	<u>\$92,000.00</u>	<u>\$87,500.00</u>	<u>\$74,937.50</u>	<u>\$93,227.84</u>

Respectfully submitted,

JAMES D. HOGE,  
Treasurer.

## TREASURER'S FINANCIAL REPORT

FOR FISCAL YEAR ENDING AUGUST 31, 1919

## RECEIPTS

Cash balance August 31, 1918.....	\$6,449.32
American Institute of Banking Section.....	460.00
American Institute of Banking Section, Special Account.....	2,000.00
Agricultural Commission.....	7,239.84
Bills Payable.....	8,000.00
Codes, Telegraphic Cipher.....	86.00
Clearing House Section.....	374.01
Convention Expenses.....	70.84
Dues (1913-1914).....	66
Dues (1917-1918).....	10.00
Current Dues (1918-1919).....	303,255.00
Dues, prepaid (1919-1920).....	7,772.50
Committee on Commerce and Marine.....	4.78
Digest of Legal Opinions.....	2,985.25
Executive Council.....	42.49
Furniture and Fixtures.....	57.50
General Proceedings.....	46.70
Investments.....	25,762.50
Interest on Bank Balances.....	2,382.85
Interest on Stock and Bonds.....	4,673.25
Journal of the American Bankers Association.....	18,415.81
Legal Department.....	14.00
Library.....	363.25
Office Fund.....	2,000.00
Postage, Stationery and Printing Rent.....	5.42
Savings Bank Section.....	256.09
State Bank Section.....	46.25
Signs and Inserts.....	3.50
Trust Company Section.....	192.48
Traveling Expenses.....	88.56
War Savings Stamps.....	132.40
Due American Exchange Na- tional, New York, N. Y.....	983.88

**\$394,178.03**Sept. 1, 1919; Cash Balance.... **\$1,131.81**

## DISBURSEMENTS

American Institute of Banking Section.....	\$14,773.37
Administrative Committee.....	2,533.67
Agricultural Commission.....	13,739.54
Auditors.....	150.00
Bills Payable.....	25,000.00
Bank Agencies at Cantonments.....	125.67
Codes, Telegraphic Cipher.....	2,176.14
Clearing House Section.....	9,797.90
Convention Expenses.....	5,125.73
Silver service presented to retir- ing President.....	450.39
Current dues (1918-1919) over- paid and refunded.....	255.00
Committee of Five.....	1,585.81
Committee on Trade Acceptances.....	606.66
Committee on Co-ordination of Activities.....	186.93
Committee on Federal Legislation.....	2,267.26
Committee on State Legislation.....	650.25
Committee on Commerce and Marine.....	5,248.63
Committee for Conference with Commissioner of Internal Revenue.....	95.23
Department of Public Relations.....	1,160.63
Dues (1919-1920) overpaid.....	17.40
Digest of Legal Opinions.....	1,780.49
Executive Council Meeting.....	14,109.16
Extra Office Help.....	1,234.40
Furniture and Fixtures.....	1,064.58
Federal Reserve Membership Campaign Committee.....	138.17
Membership Chamber of Com- merce United States of Am- erica.....	700.00
General Proceedings, Publishing and Distributing.....	11,954.86
Interest, Discount and Exchange Insurance Referendum Com- mittee.....	153.40
Insurance Committee.....	438.26
Journal of the American Bankers Association.....	678.21
Legal Department.....	37,883.00
Library.....	23,871.75
National Bank Section.....	6,179.42
National Economy Exhibit.....	10,796.63
Protective Committee.....	450.75
Postage, Stationery and Printing.....	82,819.21
Premium on Officers' Bonds.....	12,047.95
Rent, General Offices.....	111.79
Savings Bank Section.....	5,189.31
Salaries.....	13,548.20
State Bank Section.....	37,927.89
Securing New Members by Ex- ecutive Council, Vice-Presidents and State Secretaries.....	9,596.01
State Secretaries Section.....	1,120.93
Signs and Inserts, Membership.....	2,547.47
Trust Company Section.....	1,353.82
Treasurer Collecting Dues 1918- 1919.....	15,681.06
Treasurer Collecting Dues 1919- 1920.....	673.78
Traveling Expenses.....	900.63
Telephone and Telegrams.....	2,978.74
War Savings Stamps.....	1,026.76
War Salaries, Boys from Office.....	123.40
Office Fund.....	860.87
Sundries, general supplies and repairs, insurance, etc.....	2,000.00
Transfer to James D. Hoge, Treas., 2d account amount of prepaid dues less amount of prepaid bills.....	1,934.30
Balance on deposit in Union National Bank, Seattle, Wash.....	2,704.29
	1,131.81

**\$394,178.03**

## SECOND DAY'S SESSION

WEDNESDAY, OCTOBER 1, 1919

President Maddox called the session to order at 10:30 a. m. After an invocation by Monsignor J. H. Tanrath, pastor of The Old Cathedral and Chancellor of the Archdiocese of St. Louis, the first business was the report of the Committee on Federal Legislation.

## REPORT OF COMMITTEE ON FEDERAL LEGISLATION

WALDO NEWCOMER, CHAIRMAN

Since your last convention your Committee on Federal Legislation has endeavored to keep an eye on the numerous bills introduced into the 65th and 66th Congresses.

In December the Phelan and Hitchcock bills were introduced in the House and Senate and, as finally passed, amended Sections 7, 10 and 11 of the Federal Reserve Act, and Section 5172 of the United States Revised Statutes.

The amendment to Section 7 authorized Federal Reserve banks to apply their net earnings to the increase of their surplus until it equals 100% of the subscribed (not paid in) capital and provides that thereafter 10% of such net earnings shall be paid into surplus. Your committee argued in favor of an amendment permitting the member banks to carry the stock of the Federal Reserve banks on their books at book value, or some reasonable proportion thereof, and that future purchases by new members or those increasing their stock, and sales by those going into liquidation, should be at the value so fixed and, furthermore, that the member banks be given an increased dividend not to exceed 10% of the cost of their stock. These suggestions appeared to be favorably received by the members of the committee but were not enacted into law.

The amendment to Section 10 provided that the restriction as to the ineligibility of members of the Federal Reserve Board to accept positions in banks for two years after they cease to be members of the Board shall not apply to a member who has served the full term for which he was appointed. Your committee at first viewed this as personal legislation and opposed it, but upon the explanation that it had no connection with the members then retiring but was a move to enable them to secure desirable members of the Board, our opposition was withdrawn.

The amendment to Section 11 permits member banks to exceed the 10% limit of loans to an individual, provided that the excess notes, not exceeding an additional 10%, are secured by bonds or notes of the United States issued since April 24, 1917, or U. S. certificates of indebtedness.

The amendment to Section 5172 of the United States Revised Statutes permits the use of engraved signatures of officers on National bank notes.

The Phelan bill as introduced and reported to the House contained provisions providing for branches of National banks in cities against which your committee protested, and the provision was not retained in the Senate bill and did not become a law.

Your committee was active in connection with the Revenue bill during its passage through Congress and successfully urged two amendments:

(1) Eliminating stamp tax on checks; and (2) the insertion of adequate provision protecting mercantile taxpayers in the case of material reduction in the value of the inventories.

Unsuccessful efforts were made to promote the passage of a bill to extend the franking privilege to banking institutions in connection with business relating to the collection of instalment payments upon subscriptions to the Liberty loans.

Several bills were presented for the relief of contractors and your committee without attempting to make any decision as to which of several bills was the better, strongly urged the prompt passage of some bill that would grant relief in this most important matter.

The Appropriation bill which passed the House on January 18 contained a provision for the abolition of the sub-treasuries. The American Bankers Association at its last convention took the ground that the abolition of the sub-treasuries at this time was unwise and your committee took action in opposition to such abolition. On January 31 the Senate Committee on Appropriations reported the bill with an amendment which struck out the provision of abolishment and substituted appropriations for the officers and employees of the various sub-treasuries and the bill, thus amended, finally became a law. There was introduced, however, in the 66th Congress, House bill 6749, providing for the immediate abolition of the sub-treasuries, but at the time of writing this report we understand that the Committee are likely to report a recommendation that all the sub-treasuries be continued for five years, at the end of which time all shall be abolished except three, which will become permanent.

On February 8 your committee submitted a referendum to the Federal Legislative Council, at the request of the Savings Bank Section, requesting their vote for or against certain proposed amendments to the Federal Reserve Act which would permit mutual savings banks

without capital stock to become members of the Federal Reserve system and authorize the Federal Reserve Board by regulation to define savings accounts. A majority having voted in favor of the proposed amendments as provided in the Constitution, the policy of the Association was thereby determined in favor of this legislation and bills carrying same into effect were introduced in the House by Mr. Moon, of Tennessee, and in the Senate by Senator Calder, of New York, which bills were referred to the respective Committees on Banking and Currency of both houses. Congress adjourned, however, before there was opportunity for action on such bills.

At the Spring meeting of the Executive Council, on motion of the Savings Bank Section, the Committee on Federal Legislation was instructed to take no further action in urging the proposed amendment for the admission of Mutual Savings banks, a difference of view having developed among the members of that section as to the advisability of pressing such amendment. But, at that meeting a resolution was adopted, that the Committee urge an amendment to the Federal Reserve Act, endeavoring to procure the cooperation of the Federal Reserve Board, permitting incorporated savings banks to join the Federal reserve system, and also an amendment to Section 5154 of the U. S. Revised Statutes, which would authorize incorporated savings banks, which convert into National banks, to maintain separate savings departments and continue to discharge the same functions as in the State System, such savings departments to be operated under rules and regulations to be promulgated by the Federal Reserve Board.

Judge Paton has been in conference with Mr. Harrison of the Department in connection with this matter before the 66th Congress.

Amendment to Section 5209—Penalty Provision—at the Spring meeting of the Executive Council our attention was called to the fact that the amendment to this section, designed to make prosecutions more effective by giving the judge power to mitigate the extreme penalty, had been loosely drawn and as a result serious offenses were receiving extremely light penalties. Governor Harding was interviewed on this subject and was greatly surprised at the wording of the amendment and referred the matter to Judge Elliott for correction.

The following bills have also had our best attention:

House Bill 7589, providing for the shipment of currency free of charge by the Government. This bill is opposed by Secretary Glass and by some members of Congress. There seems to be much doubt of the passage of this bill, but we believe it to be fair and advantageous not only to the banks but to the public in general, and have, therefore issued a circular to members of the Federal Legislative Council and Executive Council urging them to get their several States actively behind the bill.

Senate Bill 170, authorizing National banks to open branches in

cities of over 500,000 inhabitants. Your Committee has filed a protest in the name of the Association against branch banking in any form, and requested a hearing if this bill is likely to come out of Committee. Our information is that it will not.

Amendment to Section 5219, clarifying the provision relating to State taxation of National banks by preventing discrimination and providing for a limited power of deduction of United States securities. Our Committee have been in conference with members of the Federal Reserve Board to settle upon the terms of a bill upon this subject preliminary to its introduction in Congress.

Senate Bill 2574, abatement of taxes on interest due non-resident aliens. We have urged this strongly.

Senate Bill 2472—The Edge Bill, providing for corporations to be organized for the purpose of engaging in international or foreign banking. Your committee has been cooperating with the Committee on Commerce and Marine with regard to this bill and your chairman took up with Governor Harding the question of a few amendments designed to protect existing commercial banks against possible competition. Governor Harding, however, furnished us with a copy of the rules under which the Federal Reserve Board proposed to require the said banks to operate and urged us not to insist upon changes in the law, as there was so much opposition in the Senate that any interference was likely to prevent the passage of the bill. We believe that the rules referred to protect the banks and have stated that we would not press the amendments unless specifically instructed by this Convention.

Senate Bill 2395, the McLean bill, permitting National banks irrespective of capital, to invest 5% of capital and surplus in the stock of Federal or State banks or corporations organized to engage principally in foreign trade, was signed by the President on September 11 and is now law. There are at present no such Federal corporations, but the Edge Bill, above referred to, is designed to provide such a class of corporations.

House Bill 7478, permitting National banks to exceed 10% limit when lending against staple commodities, was vigorously pressed and has passed the House, and we believe is in a fair way to become a law.

In conclusion, we would mention that the Committee has been frequently urged to take up bills which were not strictly banking matters, but of collateral interest to banks in certain parts of the country. We have adopted the policy of declining to act in such matters, unless the matter was of nation-wide importance or we were instructed by the Convention, the Executive Council, the Administrative Committee or the referendum. We have also been requested on some occasions to employ as assistant counsel a lawyer who perhaps represented certain banks or certain merchants. Your Committee has taken the



ground that our official counsel is the general counsel of the Association, that it would not be a wise policy for us to employ such assistant counsel in general, and, that in any case, we did not regard it as a proper use for any of the limited funds at our disposal.

We have also thought it wiser to save ammunition and believe that we increased the effectiveness of our attitude on the bills we did take up by ignoring those likely to be strangled in Committee, and for reliable information on this point we are greatly indebted to our very good friend, Mr. H. H. McKee, of Washington.

We also highly appreciate the very full-hearted and active cooperation of General Counsel Paton, whose assistance and advice has been at the service of the Committee at all times and has proved invaluable.

**PRESIDENT MADDOX:** Gentlemen, under the constitution the Chairman of the Executive Council is required to make a report as to the operations of the Executive Council during the year. I will make the report as brief as possible. Of course, a great many things the Executive Council did during the year it would not be practical to put in this report.

## REPORT OF EXECUTIVE COUNCIL

The Executive Council held its first meeting after the adjournment of the last convention in Chicago on September 27.

The newly elected members were cordially received into the Council and for the first time we had the benefit of the presence of the Chairman of the Agricultural Commission and, as members ex-officio, the First Vice-Presidents of the several Sections who were made eligible by an amendment to the Constitution at the last convention.

A total number of sixty-nine members answered to the roll call.

The following officers of the Association were then elected:

Fred. E. Farnsworth, General Secretary; Wm. G. Fitzwilson, Assistant Secretary; James D. Hoge, Treasurer; Thomas B. Paton, General Counsel.

The Committee on Nominations submitted their report and their nominations as suggested therein were unanimously adopted. As the personnel of the various committees was published in the JOURNAL I will refrain from going into details on this occasion.

The report submitted by the Finance Committee estimated receipts for the ensuing year at \$300,000 and recommended appropriations for the fiscal year beginning September 1, 1918, amounting to \$298,750. The several items included in this budget were carefully considered and the report was approved.

The following banks were designated depositaries of the Association for the coming year: Union Savings & Trust Company, Seattle, Washington; Continental & Commercial National Bank, Chicago, Ill.; American Exchange National Bank, New York City.

Several invitations were presented in connection with the spring meeting of the Council and after some discussion a resolution was passed authorizing the Administrative Committee to select the place of meeting and perfect arrangements.

The action of the Executive Council at its previous meeting in September, restricting the columns of the Journal to articles contributed by officers of the Association, was reconsidered and it was decided to accept such articles as in the editor's judgment would be proper, said articles before publication to be approved by the General Secretary.

After a few discussions, the Council passed a resolution permitting the Editor of the JOURNAL to accept the advertisements of banks provided that the advertisement of each bank be limited to one-quarter of a page.

The Spring Meeting of the Executive Council was held at the Greenbrier Hotel, White Sulphur Springs, W. Va., on May 20-21, 1919; 103 members responded to the roll call.

The President reported that as provided by resolution adopted at the last Convention, he had appointed the following Committee on Commerce and Marine:

John McHugh, Chairman, Fred I. Kent, William A. Law, Lewis E. Pierson, Charles H. Sabin, F. O. Watts, Daniel G. Wing, John E. Bouden, Jr., Robert F. Maddox, James J. Fagan, John L. Hamilton, Robert N. Harper, Charles A. Hinsch, Thomas B. McAdams, Arthur Reynolds, William F. Collins, Secretary.

The President reported that owing to the resignations of Joseph A. McCord of Atlanta, Georgia, and John Perrin of San Francisco, there were two vacancies on the Currency Commission, and the Council approved the election of Andrew J. Frame of Waukeesa, Wisconsin and Judge O. E. Dunlap of Waxahachie, Texas, to fill these vacancies.

The invitation to hold our forty-fifth annual convention in St. Louis was unanimously accepted and the dates were fixed for September 29-30 and October 1-2.

The President reported that Mr. Jerome Thralls, who had so ably and so long served the National Bank Section as its Secretary, had resigned and that Frederick W. Hyde had been elected as his successor. Mr. Thralls' resignation necessitated the election of another secretary for the Clearing House Section and the election of Mr. Amos F. Hill to fill this vacancy was approved.

Mr. George F. Allen was elected librarian in place of Mr. Welton.

The President reported the following appointments on the Agricultural Commission for the ensuing year: Joseph Hirsch, W. C. Gordon,

B. C. Powell, George E. Roberts, O. N. Sams, Fred N. Shepherd, J. R. Wheeler.

The Council unanimously passed a resolution recommending the adoption by Congress of the budget system.

A committee consisting of H. H. McKee, F. E. Farnsworth and F. W. Hyde, was appointed to draft resolutions on the deaths of our former beloved presidents, Robert J. Lowry and James K. Lynch, and the following resolutions were unanimously adopted:

"Col. Robert James Lowry, President of the American Bankers Association in 1895 and 1896, died at his home in Atlanta, Ga., on Wednesday, January 8, 1919, after a brief illness.

"Col. Lowry was of that unusual type physically and mentally that commands respect among men everywhere. Tall of stature, gray-haired and with a strong virile personality, he was always a distinguished and outstanding figure at conventions of the American Bankers Association. He gave freely of his time and energy to promote the work of the Association.

"In his presidential address to the Convention in 1896, held at Detroit, he reported a most momentous event of his administration in the following words:

"It is most gratifying to be able to say that within four months after the adjournment of our Association in St. Louis, a monetary convention composed of manufacturers, bankers, merchants, and representatives of nearly every pursuit and calling met in Indianapolis and that this convention endorsed by solemn action, the declaration made by this Association in favor of making gold the only unit of value and recommending such reform by Congress of our national financial system as would bring about a stability in the value of our currency that would make it equal to that of the most advanced nations of the world.'

"It was due in great part to Col. Lowry's personal efforts that the American Bankers Association went on record in the making of the banking history of this country and in this particular instance it was undoubtedly his action that arrayed the bankers of the United States as a unit behind the gold standard.

"Col. Lowry was born in Greenville, Tenn., March 4, 1840. He went to Atlanta when a boy and in 1865 he went into the banking business in that city with his father who was senior member of the firm of W. N. & R. J. Lowry. In 1887 Col. Lowry became President of the Lowry Banking Company, later converted into the Lowry National Bank, of which he was president at the time of his death. He served as president of the Atlanta Chamber of Commerce and for more than fifty years he was identified with the social and business life of the city and state. His golden wedding was celebrated six years ago.

"The passing of Col. Lowry adds another name to the honored list of great bankers and forceful personalities who have had their reward at the hands of their fellow men and have passed on to the greater reward.

"RESOLVED, By the Executive Council of the American Bankers Association assembled in session at Greenbriar, White Sulphur Springs, W. Va., this 21st day of May, 1919, that in the death of Col. Lowry this Association has lost one whose work in its behalf and whose sympathy with the aims of its members have contributed much to the upbuilding and strengthening of our organization. The members of our Association who were fortunate enough to come in contact with and know Col. Lowry personally have lost one who represents the highest type of American citizenship in every sense.

"RESOLVED, That as a symbol of our respect and admiration for the character and the work of our friend and as a tribute to his memory, which we revere, these resolutions be spread on the minutes of this meeting and a copy be transmitted to the family of the deceased as an indication of our deep sympathy for them in the great loss they have sustained."

"James Kennedy Lynch of San Francisco, Ex-President of the American Bankers Association and Governor of the Federal Reserve Bank of San Francisco, died suddenly April 28, 1919, at his home in Alameda, Cal.

"James Kennedy Lynch was born in San Francisco, September 7, 1857. He began his banking career in 1877 as a messenger boy in the First National Gold Bank, which, in 1884, became the First National Bank of San Francisco. By sheer merit he advanced steadily from one position of trust and responsibility to another. He served as cashier of the bank from 1894 to 1904 and in that year he was made vice-president. He held that office until August 7, 1917, when he resigned to accept the position of Governor of the Federal Reserve Bank of San Francisco.

"Mr. Lynch was not only one of the best known bankers on the Pacific Coast but he was known intimately by bankers throughout the country. He possessed a fine intellect and a mind trained to the last refinement of analysis. He brought to bear upon every question presented to him sound judgment and the power to make correct decisions. He was gifted with a disposition of rare geniality and sweetness.

"He was elected to serve as President of the California Bankers Association for two years. He was elected to the Executive Council of the American Bankers Association for a three-year term, was made Vice-President of the Association at the Richmond Convention and in 1915 he was elected President of the Association.

"RESOLVED, By the Executive Council of the American Bankers Asso-

ciation, assembled in meeting at Greenbrier, White Sulphur Springs, West Virginia, this 21st day of May, 1919, that in the death of James K. Lynch this Association has lost one who has been a valuable member and whose genius and work have contributed greatly to the upbuilding and strengthening of the Association. The individual members of the Association who knew him personally have lost a staunch and highly esteemed and respected friend and those members of his family whom he leaves behind have suffered an irreparable loss, for he was a devoted husband and father and a man among men.

"RESOLVED, That as a mark of our respect and admiration for the character of our deceased friend, and as a tribute to his memory, these resolutions be spread upon the minutes of this meeting and a copy be sent to his family as a token of our great sympathy for them in the loss they have sustained."

#### FLOATING DEBT PAID

You may recall in 1917 at the first meeting of the Executive Council, after the United States entered the European War, a committee was appointed to cooperate with the Government in placing the first Liberty Bond issue. This committee did splendid work and its efforts contributed a great deal toward the success of the first issue of Liberty bonds.

Owing to the emergency of the situation no provision was made for paying the expenses of this committee, which amounted to approximately \$20,000.00. During the same year the Del Mar Library was purchased at a cost of \$5,000.00. At the meeting of the Executive Council held September 28, 1917, the President and Secretary of the Association were given authority to withdraw securities from the treasury of the Association and to sell the same for the purpose of reimbursing the current funds to the extent of \$25,000.00. This action was ratified at the subsequent annual convention. Owing to war conditions, however, it was not thought advisable by the Administrative Committee to sell the securities at that time and this floating debt of \$25,000.00 was carried until January of this year, when \$30,000.00 par value New York City Corporation 3½ were sold for \$25,752.00; \$25,000.00 of this amount was invested in treasury certificates maturing in July and \$752.50 was put in the treasury. Upon maturity of the certificates in July the floating debt of \$25,000.00 incurred as above outlined, was paid.

At this meeting of the Executive Council the subject of popular education in elementary finance was considered. In the course of discussion the fact was emphasized that the way in which innocent investors have been induced to exchange their Liberty Bonds for wildcat "securities" is only one of the many examples of imposition on the public by unscrupulous promoters. Efforts have been made

through legislation to prohibit the sale of worthless stocks and bonds, but there is an arousing public opinion that something more comprehensive should be done. There is fuller realization of the fact that the people must protect themselves.

The Executive Council referred that subject matter to the State Secretaries and American Institute of Banking Sections. Pursuant to such action the American Institute of Banking Section has made a survey of the situation and we hope that something may be developed by which a broader study of the subject of banking and business principles may be introduced in the public schools.

I may say in addition, since this report was written, the Executive Council considered that subject at its meeting and it was unanimously the opinion of the Executive Council that the question of having some more interesting text-books introduced into the public schools along the lines of business principles and banking, would be a great advantage to the United States, considering the millions and millions of school children that go into the school and have a certain fundamental basis of their education without any knowledge whatever of business principles or banking principles. We hope very much to accomplish our object through the cooperation of the Secretaries Section and the American Institute of Banking, which now has 25,000 members, young bank men who are now studying banking principles in their various chapters in the American Institute of Banking. It is one of the most important features in this organization. These young men are perhaps fresher from the schools or colleges than the older members of the banking fraternity, and it was thought they could probably be more effective in introducing this text-book or having it introduced in the various schools throughout the country. I think the Finance Committee will be able to make an appropriation to take care of this work.

You will recall that at the last convention several recommendations submitted by the Committee on Co-ordination of Activities were adopted. These recommendations have practically all been put into effect and have been of much benefit.

The Cabinet Conferences have been held frequently and it has been found that the consultation and cooperation afforded by these conferences have enabled the heads of departments at our home office to work in closer harmony and with more satisfactory results.

The recommendation as to the appointment of state committees on American Bankers Association membership has also proved very effective and these committees in the several states have contributed a great deal to the large increase in our membership which amount to 1171 during the year.

The recommendation as to the appointment of a Field Committee to keep in touch with the various membership committees and also to

have some representative of the Association at the various state conventions, has enabled the Association to get in closer touch with our member banks, and has brought to the attention of the non-member banks the many advantages to be derived from membership in our Association. The Association during the past year was represented at practically all of the state conventions.

#### AMENDMENTS

It was unanimously recommended that an amendment to Article V of the Constitution be made providing for the election of an Assistant Treasurer by the Administrative Committee.

The election of this officer would facilitate very much the collection of dues without taking the custody of the funds from the Treasurer, elected by the Council. Owing to the great distance, in the past few years, between the home of the Treasurer and the office of the Association, it was found that there was great delay and unnecessary difficulty in collecting the dues, and it was believed that an Assistant Treasurer, with an office at the headquarters of the Association, would remove the present difficulty in handling the dues.

This amendment has been published and will later be submitted for your consideration.

The Council believed it wise to change the time now provided in the Constitution for the report of the Nominating Committee and unanimously recommended an amendment to the Constitution, providing that this report be made preferably on the morning of the last day of the Convention, and providing for the election of officers immediately after the report of the Nominating Committee; also providing that the installation of the new officers shall come at the close of the last day's session of the General Convention. This amendment has been published and will later be presented for your consideration.

The report of the Finance Committee recommending that the annual dues of member banks with capital and surplus in excess of \$100,000.00 be increased, was carefully considered. After a full discussion the Council recognized the importance of increasing the revenues of the Association to meet the expenses of its enlarged activities, and approved an amendment to the Constitution increasing the dues of some of the members, and this amendment will be submitted later for your consideration.

The Council also recommended that an amendment to the Constitution be made providing that the Second Vice-President of this Association become a member of the Administrative Committee. This amendment will be submitted later for your consideration.

As there has been some question raised at some of the meetings of the members of our Association, held at the time of the State Con-

ventions, as to whether or not a delegate can represent more than one member, it was decided to recommend an amendment to By-Law IV. providing that no delegate shall represent more than one member. This amendment has been published and will later be submitted for your consideration.

There being no provision for filling the office of State Vice-President, through death, removal from the State, etc., an amendment to the Constitution providing that vacancies be filled through the president of the State Bankers Association with the approval of the Administrative Committee, will later be presented for your consideration.

The Council thought it advisable to amend Article V of the Constitution, providing for the enlargement of the Federal and State Legislative Councils. This amendment has been published and will later be submitted for your consideration.

For the protection of the interests of the several sections it was decided to recommend an amendment to Section 16 of Article V of the Constitution, providing that subjects of state legislation of special interest to any Section, may be presented to the Committee on State Legislation, as previously provided, or such subjects may be urged independently by the State Legislative Committee of any section, in which case any expense incurred by the Section shall be charged to the appropriation of the section; and where a subject of special interest is thus independently urged by any section, no action in such case shall be taken by the State Legislative Committee of the Association, except under the instructions of the Association in convention assembled; and also in the subjects of national legislation, giving the Federal Legislative Committee of any section the same privilege of independent action. These amendments have been published and will later be presented for your consideration.

The action of the Administrative Committee in defining the eligibility of members was approved, as follows: "In addition to banks, corporations and firms engaged in the following lines of business are declared eligible, namely: dealers in commercial paper, dealers in investment securities; dealers in real estate mortgage securities, title companies, safe deposit companies and Morris Plan banks.

The Council approved of the action of the Administrative Committee in passing a resolution requesting the cities of the country entertaining the annual convention of the Association to limit their expenditures for entertainment purposes to \$10,000.00.

#### COMMITTEE OF SEVEN

The President reported the appointment of the Committee of Seven provided for during the Chicago Convention, which committee is in substitution for the former Committee on Cooperation and Consoli-



dation of Activities of State Bankers Associations with the American Bankers Association.

The President subsequently named as said Committee of Seven the following:

William George, President Old Second National Bank, Aurora, Ill., Chairman; M. A. Graettinger, Secretary Illinois Bankers Association, Chicago, Ill.; W. F. Keyser, Secretary Missouri Bankers Association, Sedalia, Mo.; Haynes McFadden, Secretary Georgia Bankers Association, Atlanta, Ga.; John W. Staley, Vice-President Peoples State Bank, Detroit, Mich.; P. W. Goebel, President Commercial National Bank, Kansas City, Kan.; Geo. W. Hyde, Secretary Massachusetts Bankers Association, Boston, Mass.

Owing to our large membership the work of the Association is now principally accomplished through the committees of the convention, the Council and the several sections. These committees during the past year have given careful consideration to many important subjects as their reports will show.

These committees have worked hard to promote the best interests of our members and the Association as a whole and I wish to express to them our sincere appreciation of the results they have accomplished.

The officers at our headquarters in New York had a very busy year. They have all labored faithfully to keep up the high standard of efficiency in the service of the Association, during the unusual conditions through which the country has passed, and I wish to express to them my personal thanks for their cordial cooperation and the appreciation of the Association for their loyalty and splendid services.

**PRESIDENT MADDOX:** We will now have the report of the Committee on Education, by Chairman Charles A. Hinsch.

**MR. HINSCH:** Mr. Chairman and Gentlemen of the Convention:

"WHEREAS, Conditions now existing in this country emphasize the necessity for public understanding of banking and finance and bring forcefully to our attention the duty of American bankers to do their utmost to correct misunderstandings regarding the functions and purposes of our several banking systems, to promote through early training habits of thrift, to familiarize the coming business men and women of this country with the nature of money and its uses, to enable them to distinguish between speculation and investment, and to broaden the service of the bankers of this nation to the

general public, by drawing the people into closer relations with the bankers of each community; and

"WHEREAS, The Executive Council at its meeting held in White Sulphur Springs in May last adopted a resolution concerning the preparation of text literature on banking and finance suitable for use in the public schools of the United States and referred the same to the State Secretaries and American Institute of Banking Sections;

"WHEREAS, The American Institute of Banking Section has submitted a report describing text-books now in existence, the opinions of publishers regarding present and prospective demands for such literature and statements of state and city superintendents of schools clearly demonstrating the inadequacy of text literature now available; therefore, be it

"RESOLVED, That the President be authorized and directed to appoint at this session of the Convention a Committee on Education of not less than five members; that such committee shall be authorized to, if necessary, employ a suitable person to compile suitable literature, to have it carefully revised by competent educators, and to endeavor to secure its introduction into the schools of the United States; be it further

"RESOLVED, That the Committee on Education shall also be authorized and empowered to devise and execute such other plan or plans as it may deem advisable, looking to the education of the general public on subjects above outlined."

I move the adoption of the resolution.

PRESIDENT MADDOX: Resolutions can only be introduced upon the floor by the consent of the convention, and the proper way is for the Chair to ask the question shall the resolution just proposed be considered by the Convention. If there is no objection, it will be considered. If there is no objection, it is now before the Convention.

On motion made and seconded, the resolution proposed by Mr. Hinsch was adopted.

PRESIDENT MADDOX: I now have the pleasure of introducing to the Convention a gentleman whom we all love and for whom we have the highest respect, a man who is well known

to the United States, first as a banker and a business man and also as a diplomat of the highest character, a man who has ably served his state of Missouri as Governor, his nation in the Cabinet at Washington, and more recently served the country as its Ambassador to that great country, Russia, in which we are so much interested at this time. He is here to tell us something of Russia and its future, and I am sure you will enjoy hearing the address of that distinguished diplomat who has consented to speak to us this morning, Hon. David R. Francis. (Long and continued applause.)

## RUSSIA, ITS FUTURE

HON. DAVID R. FRANCIS

*Mr. President, and Members of the American Bankers Association:*

The subject assigned me is Russia, the present condition and the future of that great, suffering, afflicted country.

I returned to America about six months ago very much weakened in health and strength by three years of strenuous service in Russia, coupled as it was by a major surgical operation. I did not return to St. Louis until just a few days ago, and I would not be here now if the American Bankers Association had not decided to hold its 1919 meeting in this city. I found a woeful ignorance existing in America concerning conditions in Russia, and I was astounded to see that the Bolshevik Soviet Government of Russia had a good many supporters and some apologists throughout the United States.

I went to Russia in 1916; I served almost a year under the Empire. I presented my letters to Nicholas II, seven days after my arrival in Petrograd. He was not there at the time. He was absent in Mogoloff, the headquarters of the army, of which he was the commander-in-chief. I first called upon the Minister of Foreign Affairs. I said to Sosonoff, "I have accepted this mission not because I am a diplomat, I have never had experience in diplomacy before, but I accepted it to negotiate a commercial treaty between Russia and the United States."

He suddenly rose from his chair and threw up his hands and said, "No more commercial treaties will Russia negotiate with any country until its commercial relations with its allies have been defined and determined." I was disappointed and expressed my disappointment to Sosonoff. I said to him, "If I had known that this was the position of Russia, I should not have accepted this mission."

You will remember that President Taft, following a suggestion from Congress, had abrogated the commercial treaty between the United States and Russia, which treaty had been in existence since 1832, over eighty years. The Senate concurred in a resolution introduced in the house by Congressman Sulzer of New York, and it passed both houses by practically a unanimous vote, that we would have no commercial treaties with any country that didn't recognize American citizenship and refused to allow its subjects the rights of expatriation. Russia had such laws, Germany had such laws and Austria and other European governments had like laws. The sentiment in this country was very bitter against Russia and the President of the United States, Mr. Taft, at that time, issued a proclamation abrogating this treaty from the 31st of December, 1912. Russia didn't take any action. That was, as you know, about eighteen months before the war began, and about sixty days before President Wilson was inaugurated the first time.

The Minister of Foreign Affairs was amiable, and I left his office and sent a very full cable of our conversation to the Department of State. The Emperor had come up from Mogoloff, the headquarters of the army, to receive the American Ambassador, and I called on him and presented my credentials at Tsarskoe Selo Palace. Tsarskoe Selo was a suburb of Petrograd where the Emperor lived. He had not spent one night in Petrograd since the revolution of 1915 when an attempt was made on his life. He came to the capital but refused to spend a night there. Tsarskoe Selo was about fifteen miles out of the city. I went there and presented by credentials and was received very cordially by his majesty. I made the same speech to him that I had made to the Minister of Foreign Affairs, but I received a different reply. He said, when I stated to him the object I had in view of accepting the ambassadorship to Russia, "Russia will meet you more than half way. Russia is as desirous to negotiate a commercial treaty with the United States as you are to negotiate a commercial treaty with Russia." I didn't tell him what Sozonoff, his Minister of Foreign Affairs, had remarked when I made the same statement to him, because I knew that his majesty was not only familiar with the policy of the Government but was endeavoring to mislead me.

That is just the kind of a man Nicholas the Second was. He didn't like to have an argument, and to avoid all controversy, he agreed with the last man whom he met. He was not a bad man but a weak ruler. The Empress Dowager, his mother, had had control over him until his marriage to this German princess. The Empress Dowager was of a very strong character and popular throughout Russia. She was the sister of the wife of Edward VII of England. She retained her influence over him until the beginning of the war, when she was supplanted in that influence by the Empress.

The Empress Dowager I never met. I was presented to the Empress immediately after I was presented to the Emperor, and I found her a very gracious lady, who was under suspicion at that time of having German sympathies. She impressed me as a very much stronger character than the Emperor, and I often tell a story which illustrates the characters of the Emperor and Empress of Russia. The Emperor was called upon one day by a liberal-minded nobleman who expressed his opinion very curtly to the Czar to the effect that he should be very liberal with the Duma and extend more privileges to the people. "You are right, quite right, my dear baron," said the Emperor. When the baron left, he felt he had made a lasting impression on the Czar. A few minutes elapsed and another man came in. After salutations had passed between them, the Emperor asked him how affairs were drifting down in his section of the Empire. He said, "All right, your Majesty, but I would advise the government to check the peasants and the liberal sentiment of the country. If you do not, if some last firm step is not taken by the administration, the peasants and the liberals will own the government." "You are right, quite right," said the Emperor. And the absolute monarchist left the palace, thinking he had made some impression on the Emperor.

A few minutes had not elapsed before the curtain parted and the Empress entered the room. She said, "Nicky, this will not do. You are an autocrat, and should rule a hundred and fifty millions of people with a firm hand. I heard those two conferences, first with the baron and then with the count. They give you directly opposite counsels. Now, Nicky, you must assert yourself. Be a man." His only reply was, "You are right, my dear, quite right." (Laughter.)

The immediate cause of the revolution of 1917 was the dissolution of the Duma by the decree of Nicholas II. His ministry had been advising the Emperor that he should issue a decree enlarging the powers of the Duma. The Duma was in session at the time. He not only promised to issue that decree but he went farther and promised to issue a decree promising the people of Russia a constitution. The ministry adjourned and the Emperor returned to Tsarskoe Selo Palace. That was on the eighth of March. That evening Prototoff, Minister of the Interior, took those decrees which were framed by the ministry to the Emperor for his signature, but Prototoff was in collusion with the Empress. The Empress had sent Prototoff, who had been vice-president of the Duma and had become an absolute monarchist. When the decrees were submitted to the Emperor for his signature, the Empress, aided by Prototoff, persuaded the Emperor to tear up these decrees and issue in their stead another decree dissolving the Duma. That was the night of the eighth of March, Thursday night. The following morning, the Emperor departed for the headquarters of the army, and the decree was published Saturday or Sunday morning.

The Duma was astounded. The ministers were surprised and disappointed. Prototoff was the only minister who sustained the decree. The Duma met, notwithstanding the decree of the Emperor. Prototoff, who had charge of the garrisons which contained at least one hundred thousand soldiers in Petrograd, ordered them to disperse the Duma. The soldiers refused to obey; and when they did that, they started a revolution. That revolution was bloodless, comparatively. There were only about one hundred deaths. At midnight on the twelfth of March, the revolution was a success.

The Emperor had been deprived of the news of this outbreak, and rumor said that he was supplied with intoxicating liquors if not drugs by those surrounding him. He mistook the extent of this revolution and thought it would be suppressed. The following day, the thirteenth of March, the Duma appointed a commission of twelve men to select a provisional government which would administer affairs until a constituent assembly could meet. A constituent assembly was to be elected by direct, universal and secret suffrage by all the people. They then demanded the abdication of the Emperor. The emissaries of the Duma arrived in the Emperor's presence on Wednesday evening the fourteenth of March. He signed his abdication without resistance, and when he had signed he said, "Am I a prisoner still?" "No," the reply was, "You can go wherever you wish." He returned to headquarters of the army, where he was joined by his mother from the Kiosk, and the Empress Dowager tried to console her son who did not appreciate his humiliation as much as his mother did. He telephoned his wife, the Empress, that night and failed to tell her that he had abdicated. He did not have the courage to inform her of the step he had taken abandoning the throne of his father, and when the Empress was informed of it the following day she indignantly refused to believe it. But it was true. He was taken to the towers a few days thereafter, and after being taken there with his family, he was not permitted to see the Empress during the four or five weeks that they lived at Tsarskoe Selo Palace, except at meal times, and when the guards were remonstrated with for their cruel treatment, they replied, "He is too weak, and she is too strong."

Nicholas the Second, the Czar of all the Russians, was a weak ruler. He was not a cruel man. I met him and had a thirty-five minutes, conversation with him when I was presented. I congratulated him on the issuance of the decree prohibiting the sale of vodka. The government derives a revenue from the sale of vodka of seven hundred millions of rubles a year, and they had five million gallons on hand at the time this decree was issued by the Emperor. He was very much pleased at my expression, and said that the decree when first issued was only to cover the period of mobilisation, but the appeal came to him so strongly from every section and from every

class of people that he extended the operation of the decree to continue during the war, and that did not satisfy the people. Finally, in obedience to their appeal, he made it perpetual. I saw him at the New Year's reception they gave him on the 14th of our January, 1917. He was dressed in the uniform of a Russian Colonel, and appeared very much at his ease. I have not seen him since, but I am satisfied that not only he but the Empress and the four grand-duchesses, their daughters and the Czarovitch, were killed without trial by the Bolsheviks at Ekaterinburg, in June, 1918.

In the meantime the revolution had begun and the provisional government was in the saddle. I explained in a speech made last Friday evening that I was the first Ambassador to recognise that provisional government and I did it ten days after the revolution had broken out. The revolution began on the twelfth of March, and I recognised this government with all the form and ceremony that I could command on the twenty-second of the following March. If the soldiers and workmen had deposed the provisional government in the beginning of this administration, Russia would have been withdrawn from the war eight or twelve months before she was, and Germany would have been enabled to send the divisions which she did send from the eastern front to the western front in March, 1917, instead of March, 1918. That was a year before the celebrated March drive began in 1918. Had it begun in 1917, before America could have made the marvelous preparations which she did make, it would have prolonged the war at least eight or ten months. The recognition of this provisional government saved the Russian army for eight months.

One of the first acts of the provisional government was to issue a general pardon for all political offenders. They threw the prison doors open and permitted the exiles banished under the imperial regime to return to Russia. They came swarming back. Lenine, the arch conspirator of the day, and the brightest intellect that Russia has produced on the socialist side, was in Switzerland. He had been advocating the defeat of his native country because he said that that condition was the only thing that could help the revolution. Lenine from the beginning of the war was the leader of the defeatist party. He was an exile but he wrote voluminously and his writings were always able and logical to his followers. At the beginning of the revolution, Lenine immediately left Switzerland and journeyed through Germany, back to Russia. He was furnished with a special car by the German Government and his passage through Germany was aided with all possible speed. Lenine was received with a great ovation. You do not understand conditions in Russia at that time. Consider, if you will, one hundred and eighty million people, ninety per cent of whom were uneducated. They had been striving for liberty for generations; nay, for centuries. They had responded to the call of

their country and formed an army of eighteen million six hundred thousand men. Never was there such a large army assembled in the history of warfare. They had lost at the time of this revolution two millions by death and disease, and two million more were imprisoned in Austrian and German prison camps. They foresaw no end to the war, so when Lenine promised them peace, land and luxury they would have been more than human if they had not listened to it.

Lenine is the greatest enemy civilization has ever had. (Applause.) Upon his arrival in Petrograd he immediately began to undermine the provisional government. No provision had been made for filling vacancies in the ministry of the provisional government. Kerensky was looked upon as a social revolutionist. Kerensky in the first days of the revolution performed heroic work in suppressing the Bolshevik spirit, but Lenine persisted and he was joined by Trotsky from America. Trotsky is an adventurer. Lenine is a fanatic, and as I have said on many an occasion, a fanatic in a bad cause is a more dangerous man than an intellectual fraud. Lenine was an International. Lenine was fastening the precepts of the Bolshevik revolution. When the provisional government was deposed and the Bolshevik or Soviet government came into power, it immediately began to negotiate for an armistice between the Central Empires and Russia without consulting any of Russia's allies. We had been in the war then about nine months. That armistice was signed. It was all arranged by Germany with Lenine or by Lenine with Germany. This nefarious coalition was agreed upon. It has clearly been shown in the light of subsequent events that Lenine was the German agent and Trotsky also. Do you blame your ambassador for refusing to recognize such a government as that?

This armistice was signed and it provided that the co-belligerents of Russia should be invited to participate in it, in the negotiations for peace. Of course, America paid no attention to it, nor did England or France or any of the other Allies, but the Brest-Livsk peace was signed, and it is the most disgraceful peace that was ever imposed upon a civilized country by another civilized country. It virtually made Russia a German province. The President of the United States sent a telegram to the Russian people through the All-Russian Soviet Congress assembled to ratify the Brest-Livsk peace. He sent this on my recommendation. It was misunderstood or misconstrued by patriotic Russians as a recognition of the Soviet Government but it was never intended as such. It was addressed to the Russian people through this Soviet Congress. The All-Russian Soviet Congress after ratifying this disgraceful peace which had been imposed upon Russia by Germany at Brest-Livsk replied to the President's telegram and Synovia, who is now the dictator of famine-stricken and ravished Petrograd was a delegate to that All-Soviet Congress and upon his



return to Petrograd stated in his speech to the Soviet that the All-Russian Congress of Soviets to which he had been a delegate had been slapped in the face by the President of the United States.

That reply was not to the President but through the President as a medium to the laboring classes of America whom the Soviet opposed and the substance of the telegram was, use your influence not only to stop the preparation that America is so zealously making for entrance into the war, but overturn that capitalistic government. I charge the Bolsheviks through Lenine's Soviet Government in Russia, with prolonging the war at least six months beyond the time it would have ended if Russia had not been withdrawn from the war. Lenine with systematic and persistent energy did everything he could not only to demoralize the army and weaken the Provisional Government but to promote the cause of Germany in Russia. Lenine was an International, and is an internationalist now. He openly advocates the dictatorship of the proletariat and that means the Soviet government.

Do you know what the Soviet government is? I think that Bolshevik and Soviet are construed and used as synonymous terms in this country. Bolshevik is the name of a party and Soviet is the name of a form of government. The Bolsheviks approved of the social revolution and were looked upon as radical social revolutionists. The Mensheviks were a sub-division of the social democrats and the Bolsheviks were also out of the administration of the government, so that the Soviet Government in Russia now has only Bolsheviks administering its affairs. The Soviet government has as its basic principle that no one will be allowed the right of suffrage who employs another man. They expressly exclude in their constitution the clergy, merchants and professional classes, and they even go so far as to exclude domestics who work in the families of any of these proscribed classes. That is dictatorship worse than the Romanoff dynasty. If I had to choose between the dictatorship of the proletariat and the dictatorship of an absolute monarchy, I would select the latter. Words fail me to give an inventory of all the cruelties perpetrated and practiced by the Bolshevik government. When the Provisional Government was in power, one of the criticisms of it on the part of the Bolsheviks was that they had not called a constituent assembly. They did call a constituent assembly, but as the Russian people were unaccustomed to voting, they had to be educated in exercising that privilege, and the constituent assembly postponed its meeting for from forty to fifty days. The date of it was fixed for January. The Bolsheviks came into power in November, 1917, and the date was fixed for January, 1918.

The Bolsheviks came into power previous to the meeting of the constitutional assembly and they did not let it meet. It only remained in session about six hours when it adjourned after organising. The

Bolsheviks had arrested all of the cadets who were elected to the Constituent Assembly by constitutional democrats. On the organization of this Constituent Assembly the Bolsheviks saw that they were in the minority and they dispersed the assembly through a drunken sailor. The next day at eleven they came to the Duma, within three or four blocks of the American Embassy, and were denied entrance to their assembly hall. The Soviet Government had charged that the Constituent Assembly was not called by the Provisional Government because the Provisional Government wished to perpetuate its powers, and when the Constituent Assembly did meet the Bolshevik Soviet Government dispersed and dissolved it. The Soviet leaders before they deposed the Provisional Government advocated free speech and free press. When they came into power they suppressed every publication that was not Bolshevistic and imprisoned everyone who criticized the Bolshevik rule. Furthermore they repudiated all the debts of Russia. Our Government had advanced \$251,000,000 on my recommendation. The Soviet Government repudiated that, notwithstanding they appropriated the supplies which that indebtedness or credit had bought. There were quantities of war supplies at Archangel and Momonts and Vladivostock. The Bolshevik Government appropriated those at Momonts to the extent of their ability, appropriated all of those at Archangel before the diplomatic corps went there and before the anti-Bolshevik Revolution occurred on the second of August, 1918, and would have appropriated the supplies at Vladivostock had they not been prevented from doing so by an American man-of-war. More, it will interest you to know that Lenine, in a speech, admitted he was making money as fast as the printing presses could work, and that his object was to destroy the value of money. He did not hesitate in his public speeches to advise the overturning of all organized government everywhere.

Our institutions have for their foundation the principle that government derives its just powers from the consent of the governed. They have for their superstructure universal education, and for their crowning arch equality of opportunity. A government such as that, and I think that fittingly describes our institutions, the Bolsheviks call a capitalistic government, and they are making insidious efforts to overturn this government, which has stood the test of a hundred and forty years, and which every true American is proud of.

About two months after the Bolshevik Government came into power, I was visited by two men, separately, whom I knew very well, one had been connected with the Provisional Government in the Department of Finance, and the other with the Empire, with the Ministry of Foreign Affairs. They said to me, we have come to ask a great favor of you. As you know, many Russian banks have credits in New York. These Russian banks have all been nationalized and their

books examined, and their presidents or cashiers, in some instances, have been ordered to send a cable in the bank's cipher to its correspondent in America, ordering them to pay certain amounts to certain people in America. Now both of these men said to me, the bank presidents dare not refuse to send these cables to their correspondents in America, but the Bolshevik Government, the Soviet Government, which was in power at that time and had been for two months, wanted this money paid to its emissaries in America for the purpose of spreading Bolshevik doctrine in this country. They asked me to cable the State Department in cipher not to comply with any cable orders in cipher from their correspondents in Russia, without confirmation. While I realized the delicacy of the request, I complied with it. Every Ambassador in a foreign country has a personal cipher which is for his own use on strictly confidential subjects. A cable sent in that code is to be deciphered by the Ambassador himself, likewise a cable the Ambassador sends in that code is to be deciphered by the Secretary of State. I cabled the information to the State Department, and while the State Department didn't reply, I have learned since I returned to America that it complied with the request. Now, this shows what work the Bolshevik propaganda is doing in America.

The dissensions and differences or controversies between employer and employee which prevail in this country today and in every civilized country on the globe can all be traced back to Russia. They hark back to the Bolshevik successes in that afflicted country. The Russians are applying to us for aid. They don't wish us to send an army there. We could have intervened and saved our face before the armistice was signed. The Allies and the Associated Governments could have eradicated Bolshevism in Russia if they had intervened with force before the armistice was signed. But they did not do it. And the question is now, what is the remedy for that situation?

I have said since returning to this country that it is impossible to establish peace in Russia with chaos prevailing in Russia. I have concluded after six months stay in this country that it is impossible to establish industrial peace in America with Bolshevism and Bolshevik rule in Russia. (Applause.)

That is not all. The Bolshevik armies which have been growing in power and in discipline since I left Russia in November last, are disciplined and commanded by German officers. Those armies consist of mercenaries, Letts and Chinese, and conscripted Russians who were forced to join the army rather than starve or freeze, and are forced to join the army in some instances because their women folks have been imprisoned and held as hostages.

Germany is not only commanding this army of the Bolshevik Government through its officers, but is making plans for an economic war, and has already begun to establish her influence in Russia.

When I went to Russia, although the war had been in progress for twenty-one months, I found that the Russian authorities had been unable to loosen the control of the German interests on Russian industry. As I have said frequently before, if this war had been postponed in its opening for ten years Germany would have had such a secure foothold in Russia that it would have been impossible to dislodge her.

Now, I have read and heard that the terms of peace imposed upon Germany are very severe. I do not feel that way myself, but I can show you, uncontrovertibly, that Germany is making greater progress in reconstruction than any other country engaged in the war. German territory was not invaded, except at the beginning of the war; her industries are intact, and her laborers, instead of demanding a six-hour day, and a week of five days, are appealing for a ten-hour day and a week of six or seven days. Germany realizes that Russia is a good field for German enterprise. These armies of the Bolshevik Government composed of mercenaries and conscripted Russians, as I have said, and commanded by German officers, are a camouflage. The contest is not between the Bolsheviks and the Russians, but between the Germans and the Russians. Germany is better acquainted with the resources of that expansive area than any other country on the globe, and if Germany gets control of Russia and utilizes its resources and organizes its enormous man-power, it will be as strong ten years from now as it was at the beginning of the late war.

The Russians are appealing to us for help, for assistance, for encouragement. I think they deserve it. Russia has twice defended us. By us, I mean the United States Government. During our Civil War, when England was about to recognize the independence of the Confederacy through the influence of Jackson and others, Russia had her cruisers in American harbors and said, "If England recognizes the independence of the Southern Confederacy we will aid the Union cause." On other occasions in 1893, when this country was going through the severest panic in its history, Russia offered to loan three hundred million dollars in gold to the Cleveland Administration, in order that it would not be compelled to suspend specie payment. It was refused and the bankers of the United States, headed by J. P. Morgan of New York came to the rescue of the administration, and averted the gold panic. Russia, however, did not know that that generous offer would not be accepted.

The Russian people have performed a noble part in this war, notwithstanding the withdrawal of Russia one year before the war terminated. After the beginning of the war you remember that Russia was invaded. That invasion and the invasion of Galicia, and the retreat therefrom, cost Russia hundreds of thousands of her sons, but she made the sacrifice in our cause, in the cause of civilization and humanity. It has been too soon forgotten. That sacrifice that Russia

made in East Prussia and Galicia saved Paris, saved all the channel ports in France, and saved the French and British armies. Do you ask why? Because, if it had not been for that invasion by the Russian army at East Prussia and Galicia, Germany and Austria would have sent their divisions, as they did when Russia withdrew from the war, to the western front when the British and the French armies were comparatively small and weak and would not have had the assistance of American troops.

When I arrived at Petrograd the Minister of War was in prison. He had been tried with not only betraying his country to the Germans but failing, intentionally, to provide the Russian Army on its retreat from Galicia into East Prussia with ammunition and arms. Those Russian soldiers marched up to the fortified places of the Germans and Austrians without arms. I do not know of any severer test of courage that any army could be expected to go through. When they were mowed down by machine guns in the hands of well-equipped soldiers of Austria and Germany, the ranks were filled with other unarmed men going to the slaughter. These same Russians are asking for our assistance now. Russia deserves consideration at the hands of the Allies. I would be in Russia today had my health not failed, if my strength had not been seriously impaired. I promised in the name of my Government, supplies to these Russians if they would but organize and repel the encroachment of Germany and that meant deposing the Bolshevik element. How much longer will the Allies play the part of Pontius Pilate, and by washing their hands lay flattering unction to their souls while the patriotic Russians are being murdered by the Bolsheviks, and are crying for aid to us and other allied countries? I do not advocate sending an army into Russia. It would not be necessary.

You ask me what the remedy for this situation is. In my judgment, the surest and the promptest remedy is the formation of a league of nations. (Applause.) That can be accomplished by the ratification of the Peace Treaty. What have we to fear by membership in a league of nations? A league of nations is our own child. We announced when we entered the world war that we didn't participate in it for the purposes of annexation, or extending our territory, and we would receive no indemnity. We looked upon it as a struggle between the forces of humanity. We raised the plane of issue above a war of conquest. We announced our intentions to make this the last war. We announced in the beginning our plans for that—mainly, the formation of a league of nations.

I don't see anything to fear from membership in this league. We are the strongest people on the face of the globe. European governments are indebted to us, and our balance of trade is annually three billions of dollars in our favor. We will have more influence in the

league of nations than any other two governments. Our chair is there at the head of the table. I don't wish to impose my convictions upon you, but I see no escape from the ratification of that peace treaty.

What would be the effect if we should fail to ratify it? It provides that it shall go into operation when three of the great countries ratify it. England has already ratified it and France will ratify it this week. Italy and Japan and America are the only three countries left; when one of these three countries ratifies, this peace treaty goes into effect, and those who fail to ratify it will have to make their peace with Germany separately.

I repeat that all of the social troubles, and all of these labor troubles, these controversies between employers and employees, many of them are not for improved conditions, many of them are for enlarged power; all of these differences go back to Russia. If the Bolsheviki had not been permitted to rule that afflicted country, if they had been exterminated—it would be a breach of diplomatic custom for me to say that I recommended the extermination of the Bolsheviki and I don't say it (laughter)—but if they had been exterminated before they instituted this reign of terror in the summer of 1918 and the spring of 1918, we would have had much less labor controversy throughout this broad land. But we didn't do it, and, as I said, and I repeat it, we have come to the parting of the ways. We have come to a crisis in our industrial conditions. And I say in the ratification of that Peace Treaty, the swiftest and surest remedy for this deplorable situation lies. I thank you. (Tremendous applause.)

A MEMBER: I move this convention express by a rising vote its appreciation of the splendid, intelligent and clear manner in which we have learned of the bleeding and suffering sustained in Russia.

The motion was carried with great applause.

PRESIDENT MADDOX: We will now proceed with the discussion of the amendments which were not disposed of yesterday. These amendments to the Constitution have been prepared in writing and I will refer to them briefly, and if there are any questions you wish to ask, Judge Paton will be glad to answer them and explain the object of the amendment.

W. G. EDENS: May I ask that this resolution (waving paper) be presented by request?

PRESIDENT MADDOX: Let the resolution be presented to the General Secretary for reading.

GENERAL SECRETARY FARNSWORTH: I will read the following letter:

**"RESOLUTION:**

"We, as representatives of the American Bankers Association coming from the great scenic northwest feel like calling the attention of the public to what America has to offer to tourists in the way of fine comfortable travel, sightseeing and adequate hotel facilities in our own country, and therefore be it

"Resolved, That bankers encourage American tourists to 'See America First.'"

"It is signed by E. G. Crawford, Portland, Oregon; H. W. MacPhail, Raymond, Washington; George L. Ramsey, Helena, Montana; Jas. Ringold, Denver, Colo.; H. L. Hopkins, Clark, S. D.; F. A. Irish, Fargo, N. D.; J. W. Wheeler, St. Paul, Minn.; Geo. W. Perry, Sheridan, Wyo.; Walter E. Miller, Nampa, Idaho; L. H. Farnsworth, Salt Lake City, Utah."

On motion, the resolution was adopted.

PRESIDENT MADDOX: The first amendment to the constitution, approved by the Executive Council, is in regard to the election of an Assistant Treasurer. What is your pleasure?

(Motion made and carried that the amendment as published be adopted.)

Next is in regard to the report of the Nominating Committee and installation of officers.

(Amendment adopted.)

The next is in regard to the vacancy in office of State Vice-President, amending Article IV, section 3 of the constitution.

(Amendment adopted.)

The next is in regard to adding the Second Vice-President to the Administrative Committee.

(Amendment adopted.)

I want you gentlemen to understand that I am merely hurrying for the purpose of facilitating the work of the convention. I do not wish to deprive any delegate to the convention of the privilege of asking any question he wishes to ask in these matters. The amendments have been approved

by the Executive Council unanimously, but I do not want the delegates to think that the chair is endeavoring to rush them through without proper consideration.

The next is the enlargement of the Federal and State Legislative Councils.

(Amendment adopted.)

Independent legislative action by sections—you are probably familiar with that amendment, which gives the different sections the right to undertake independent action in any State or Federal legislation that they see proper to take, and when that action is taken by the sections independently, the Association takes no action unless directed by the convention assembled.

(Amendment adopted.)

Next is in regard to the annual dues of the members. I assume you gentlemen have read that amendment, it does not increase the dues of probably thirteen thousand of our members who now pay ten dollars. Our membership is now largely composed of the small, country bankers, and their dues are ten dollars. There is a scale, of course, for the other dues. I hope you gentlemen are familiar with it.

(Amendment adopted.)

The next is voting for members of the Executive Council. That has been explained in my report. There is no rule or part of the constitution expressly declaring that no delegate shall represent any more than one member. In some of the states where one delegate is interested in five or ten or fifteen banks, sometimes they have made an effort to vote five or ten times, and this decrees that no delegate shall represent more than one member.

(Amendment adopted.)

The next is in regard to election of members of committees of the Executive Council. That gives the Executive Council the right to elect men on the various committees when in its judgment it is deemed best to disregard the one, two or three year rule, as now provided.

(Amendment adopted.)



The next is the recommendation of Mr. E. M. Wing, president of the Batavian National Bank, LaCrosse, Wis., that section 1, of Article II be amended in regard to the qualification of membership in the Association. That amendment, if adopted, would deprive several hundred members of membership.

**MR. GOEBEL:** Mr. President, I move that this recommendation be laid on the table.

**PRESIDENT MADDOX:** I might say in connection with the motion that the Executive Council considered that amendment and I think unanimously disapproved it.

(The motion to lay the amendment on the table was unanimously carried.)

The next is a recommendation by General Secretary Farnsworth to change the groups of some of the states. It provides for grouping Delaware, Rhode Island and Nevada. As you gentlemen know, the present rule of the Association is that those states having less than 100 membership in the Association are grouped with other states having less than 100 membership and they are given one member on the Executive Council.

**MR. HAWES:** I desire to offer a substitute to the amendment as written in the program, a substitute that has received the unanimous approval of the Council. It is as follows:

Amend By-Law four, paragraph C, by striking out the whole thereof and substituting the following: "C. States not provided for in subdivision A, wherein the total number of banks eligible for membership in the American Bankers Association is less than 100 or does not exceed 133, shall each be entitled to one member of the Executive Council, provided the members of the American Bankers Association in each State are not less than seventy-five per cent. of the total number of banks in such State so eligible for membership. The election of such members of the Executive Council shall be in the same manner and be governed by the same rules of procedure as provided in subdivision B. This amendment, however, shall not affect the tenure of office of the present members of the Executive Council elected to represent particular groups and no such State can have more than one member on the Executive Council."

Amend section 2, Article V, by striking out from the second line thereof the words "Groups of States."

I move the adoption of the substitute, Mr. President.

(The substitute was adopted.)

**PRESIDENT MADDOX:** The next amendment providing for an Advisory Committee of Nine, proposed by the State Bank Section, at the request of the State Bank Section has been withdrawn, and unless some other member wishes to bring it up it will not be presented for your consideration.

There was an amendment to this other amendment that Judge Paton will now explain to you. The idea is this: It sometimes happens that a vacancy occurs among the members of the Executive Council from a certain State, as for instance New York at the present time, so that the State has not the representation at the convention. It was thought advisable to provide for such emergencies as that. The members of the Executive Council, as you gentlemen probably know, are only elected by the members of the American Bankers Association at the State conventions, and there is no provision whatever for having their quota of Executive Council members filled other than at that time. This amendment is only to provide that in the case of death or resignation of any member of the Executive Council from any state, until the next election held at the annual state convention the successor can be appointed for the interim by the Vice-President of the American Bankers Association for that state. I think I have made it clear and if Judge Paton has anything that he cares to add we will be glad to hear from him.

(Judge Paton read the proposed amendment, explaining it, and it was unanimously adopted.)

(NOTE:—The complete text of all amendments adopted appears in an appendix to this volume.)

**PRESIDENT MADDOX:** The next is a resolution presented by Mr. Robt. D. Kent, president of the Merchants Bank of Passaic, New Jersey.

**WHEREAS,** The organization of the check collection system of the Federal reserve banks has disturbed the advantageous collection ar-

rangements of many banks, thus rendering it more troublesome and expensive to collect promissory notes and drafts; and

**WHEREAS**, There exists no comprehensive and satisfactory system of collecting from the outlying towns and cities of the country these instruments, which amount to vast sums in the form of millions of items; and

**WHEREAS**, There exists a system or a number of systems of performing the opposite operation of distributing sums of money to the various towns and cities of the country through what are known as money orders or travelers' checks, which are also issued in great numbers and aggregate vast amounts; therefore be it

**RESOLVED**, That there be appointed by this Association a Committee of Five to give careful consideration to the matter in order to ascertain if it would not be practicable and desirable to form an organization under the auspices of the Association to conduct in combination the two classes or features of business alluded to, and in such a way as to provide from its profits an income to the Association; be it further

**RESOLVED**, That this Committee of Five report to the Executive Council of the Association, and if the report is favorable to the proposal that the Executive Council be authorized to proceed, if it deems it advisable, to the organization of a corporation to carry out the purposes of the resolution, and that in any event, it report on the matter at the next annual convention.

(At the request of a delegate, discussion of this resolution was postponed until the following day.)

**PRESIDENT MADDOX**: The next resolution is presented by Vice-President Hawes, suggesting the organization of a special committee to be known as the Public Relations Committee, which will have charge of the matter of publicity in which the Association is interested. This resolution was considered by the Executive Council and with the consent of Mr. Hawes these words were stricken out: "and also have supervision of the Journal of the Association." As we already had a committee of three to supervise the Journal it was thought best to leave that out of the duties of that committee; otherwise, the Executive Council recommended the adoption of the resolution.

**MR. HAWES**: I know of no objection, Mr. President. I won't discuss it unless there is opposition to it.

(The resolution was unanimously adopted.)

It is as follows:

**RESOLVED**, That a Special Committee is hereby created in pursuance of Article VI, Section 2, to be known as the Public Relations Committee, which shall have in charge matters of publicity in which the Association is interested, including the relations between the Association, the public and other organizations. Its functions shall include the preparation of advertising forms and literature for the members and the rendering of such services for members in connection with advertising and publicity as may be proper and practicable. The Committee shall perform such other duties as may be imposed upon it from time to time by the Executive Council. The Committee shall be composed of seven members to be appointed by the President, subject to confirmation by the Administrative Committee, from the membership of the Association or from the membership of the Executive Council, or from both at his discretion.

The General Secretary then read invitations to the American Bankers Association to hold its annual convention in 1920 in Washington, D. C.; and in 1921 in Los Angeles, Cal. The President recognized Mr. Rosenberg of Washington, D. C.

**MR. ROSENBERG:** In behalf of the District of Columbia Bankers Association, of which I have the honor to be the executive head, I wish to extend in a spirit of hospitality an invitation to the American Bankers Association to meet in convention in the nation's Capital in 1920. I won't go into a prolonged discussion as to why the invitation should be accepted. I do not know of any better example of the spirit of hospitality than the one we have here in the city of St. Louis, (applause); and I desire to say in behalf of Washington, that this hospitality will be shown you in as great a degree in Washington as in the city of St. Louis. If you have never been in Washington it will give you an opportunity of visiting that city. Now then, ladies and gentlemen, permit us to greet the next American Bankers Association convention in the city of Washington, one year hence. (Applause.)

**PRESIDENT MADDOX:** If there is no objection, the invitation will be referred to the Executive Council, as is customary.

**MR. W. W. HEAD:** We have listened this morning to the

speech of Governor Francis with a great deal of interest and appreciation of the conditions he described in Russia at the present time. He also referred to the conditions that obtain in this country and to the fact that the Bolsheviks of Russia were using the propaganda that was originated in Petrograd to establish in this country the same form of rule. A short time ago President Wilson said that we must practice economy and thrift along broad lines, and there has been formed the National Thrift Committee, of which our honored President is a member, and other men prominent in public life and in private life are members, and I should like to offer at this time, if it please you sir, the following resolution:

"That the American Bankers Association endorse the plan for National Thrift Week beginning January 17th, 1920, in which it is intended to bring home to the individual citizens of the United States and Canada, the importance of continued thrift and economy, the value of life insurance, and of a bank account, of making a will, of owning one's own home, and the paying of bills promptly."

This same resolution has already been passed by the National Association of Life Underwriters, the National Confederation of Constructive Industries, the National Credit Men's Association which is composed of wholesalers, and the Retail Credit Men's Association of the United States. I move its adoption by this body.

(The resolution was unanimously adopted.)

The meeting then adjourned.

## THIRD DAY'S SESSIONS

THURSDAY, OCTOBER 2, 1919

The third session was called to order by President Maddox at 10 a. m., Thursday, October 2. An invocation was offered by Rev. Leon Harrison, Rabbi Temple Israel.

PRESIDENT MADDOX: We will now have the report of the Currency Commission, Hon. A. Barton Hepburn, Chairman.

General Secretary Farnsworth read the following communication from the Chairman of the Commission:

The Federal Reserve Board addressed to Senator McLean, Chairman of the Committee of Banking and Currency of the United States Senate on August 8th, a letter reviewing the financial situation in which they make use of these words:

"The Federal Reserve Board believes that any currency legislation at this time is unnecessary and undesirable, and would suggest that, whether viewed from an economic or financial standpoint, the remedy for the present situation is the same, namely, to work and to save, etc."

Out of respect to the sentiments and attitude of the Federal Reserve Board, the Currency Commission has decided, unanimously, to take no action upon the subject under their jurisdiction at this time. We address this to the convention in explanation of our attitude and action.

(Signed) A. BARTON HEPBURN,  
Chairman Currency Commission.

The report was received and filed.

PRESIDENT MADDOX: The next will be the report of the Insurance Committee, Mr. Parker. Is Mr. Parker present? (No response.)

Mr. Peck, Chairman of the Committee on State Legislation—is Mr. Peck in the room? (No response.)

GENERAL COUNSEL PATON: Mr. President, Mr. Peck, the Chairman of the Committee on State Legislation, is ill and unable to be present. The report is in the hands of Mr. Traylor of that committee, who does not appear to be present now. On behalf of the committee and acting as its secretary, I ask leave to file the report as being read to you. In brief, I might say that that report shows a splendid record of legislation and action in the different States this year, recommended and urged by the American Bankers Association. We have succeeded in having the negotiable instruments law passed in the State of Texas. There is only one other State in the Union that has not passed a negotiable instruments law—that is the State of Georgia, but through the efforts of our President, I understand that that law passed the senate in Georgia this year and has every likelihood of passing the

legislature of Georgia next year. With that accomplished we will have a uniform negotiable instruments law throughout the country. A number of other laws of great value to banking interests have been successfully urged this year, one in particular a law allowing a bank holding a check for collection to send it direct to the payor. You know, the courts have quite generally held that that method of forwarding is negligent, and the bank forwarding is responsible. Custom has been to the contrary. It is quite customary to forward a check for payment to the bank upon which it is drawn, and this law legalizes the custom. That law we have succeeded in having passed in the State of Missouri and some ten other States this year. I will not enumerate the different laws of this character which have been passed, but all told the report of the Committee on State Legislation shows that sixty measures recommended by this Association have been put on the statute books of state legislatures this year, and I think that is a wonderful record. (Applause.)

## REPORT OF COMMITTEE ON STATE LEGISLATION

Your Committee on State Legislation have been active during the past year in promoting bills recommended by our Association for enactment in the different states. The results accomplished have been most gratifying.

The work has been accomplished through the cooperation of members of the State Legislative Council in each state working in conjunction with the State Vice-Presidents of the American Bankers Association and of the various Sections and with the active assistance of secretaries and legislative committees of state bankers' associations; also with the cooperation in many instances of the heads of banking departments.

The Committee organized by assigning to each of its twelve members certain states to which each such member should give particular attention.

In December, 1918, a program of legislation recommended by the Association for state enactment, containing drafts of proposed laws with explanatory statements of their purpose and with a list of the states in which such laws were needed was issued under the auspices of our Committee and placed in the hands of all interested workers.

Over forty states have held regular legislative sessions during this year and an active campaign was inaugurated in each of these states. The result in detail, so far as reports have been received, is given in two summaries of state legislation affecting banks, enacted during 1919, one issued last May and a supplemental summary issued this month. These summaries give not only the Association bills which have been passed but also bills on other subjects affecting banks and while they are not absolutely complete because final reports have not all been received, still they present a digest of a vast amount of bank legislation which has been enacted this year, which will prove of value.

So far as our Association measures are concerned, the following recapitulation will be of interest:

The negotiable Instruments Act has been passed in the state of Texas and this law has now been enacted in every state of the Union with the single exception of Georgia.

The Uniform Bills of Lading Act has been passed in the states of North Carolina and California.

The Uniform Stock Transfer Act was not passed in any of the states this year, but an effort to repeal the Act heretofore passed in the state of Connecticut was successfully opposed.

The Act to punish derogatory statements affecting banks has been passed in the states of Georgia, Kansas and West Virginia.

The Act to punish the giving of checks or drafts without funds has been passed in the states of Arizona, Georgia, Michigan, Minnesota, Montana, New Jersey, New Mexico, Pennsylvania and Wyoming, although in a number of these states it was modified so that the providing of funds by the maker within a certain number of days after notice of non-payment relieved him from criminal responsibility.

The Act defining and punishing the crime of burglary with explosives has been passed in the state of Nevada.

The Act fixing the liability of a bank to its depositor for payment of forged or raised checks has been passed in the states of Georgia, Missouri, Nebraska, Nevada, and West Virginia and in Idaho the form of law originally passed was amended to conform to the draft of act now recommended.

The Act relative to payment of deposits in two names has been passed in the states of Georgia, Nevada and West Virginia.

The Act relative to the payment of deposits in trust has been passed in the states of Georgia, Nevada, Ohio and West Virginia.

The Act concerning the competency of bank notaries has been passed in the state of West Virginia.

The Act to limit the liability of a bank for non-payment of



a check through error has been passed in the states of Michigan, North Carolina, Tennessee and West Virginia.

The Act authorising banks to forward items direct to the payor has been passed in the states of Georgia, Michigan, Minnesota, Missouri, Nevada, Oregon and South Dakota.

The proposed Act authorising state institutions to join the Federal reserve system, in the form recommended by the Association, has been passed in the states of Arizona, Nevada, New Mexico, North Carolina, Tennessee, Utah, Vermont, West Virginia and Wyoming. In the state of Ohio an act was passed in different phraseology but embodying the substance of the recommended bill; and in the state of Colorado sections 1 and 2 of the bill were passed.

In all, sixty enactments of measures recommended by this Association have been placed on the statute books of the different states this year, and our Committee feels gratified that their labors have met with a considerable degree of success.

**PRESIDENT MADDOX:** That certainly is a very gratifying report of the Committee on State Legislation. I know that they have done excellent work for the Association.

The next is the report of the Committee on Trade Acceptances. Mr. Treman, the Chairman, is not here, but I understand one of the members, Mr. Sands of Richmond, would probably make that report. Is Mr. Sands in the room at this time? (No reply.)

(NOTE:—For report of this committee, which is the same as that prepared by the Acceptance Committee of the National Bank Section, see proceedings of that Section.)

**PRESIDENT MADDOX:** The report of the Committee to Co-Operate with the United States Section of the International High Commission.

**GENERAL SECRETARY FARNSWORTH:** The Committee reports that it has not held any meeting during the past year and that there is no report to make; that they are ready to act at any time emergency may demand.

**PRESIDENT MADDOX:** The report of the Committee to Co-Operate with the Committee of the Chamber of Commerce of the United States Regarding Foreign Exchange.

**GENERAL SECRETARY FARNSWORTH (reading):** "In reply to

your letter of the 24th I beg to state that there has been no meeting of the Committee to Co-Operate with a Committee of the Chamber of Commerce of the United States Regarding Foreign Exchange since our report to the Association of last year, as nothing has come up to require the attention of your Committee. We have, therefore, no report to make this year.

J. H. FULTON, Chairman."

**PRESIDENT MADDOX:** The report of the Special Committee on Forms for Income Tax, Mr. Elias Doar, Chairman.

**GENERAL SECRETARY FARNSWORTH** (reading): "I find it impossible to attend the Convention and acting upon your suggestion of the 24th inst., I beg to report for my Committee.

"About January 11th, 1919, we were courteously received by the Honorable Commissioner of Internal Revenue, and as Chairman representing the Committee, I had a conference with the Department's 'expert' upon 'forms.'

"I regret to report that when the 'forms' arrived it appeared that our efforts were in vain, as the 'forms' are more complicated than ever. I suggest that the committee be disbanded as I do not believe any relief can be had along the lines hoped for.

"With thanks to the officers of the Association for the honor of my appointment and kind personal regards,

"ELIAS DOAR, Chairman."

**PRESIDENT MADDOX:** I may add, gentlemen, that the outlook is not so discouraging as the report might indicate. Our General Counsel stated that he still felt that he would be able to bring about some desirable changes.

Next will be the report of the National Councillor for and Representing the American Bankers Association at the United States Chamber of Commerce meeting.

The meeting which was held in the city of St. Louis last spring was largely attended. That organization, as you know, is perhaps one of the largest business organizations in the United States, as practically every industry is represented.

I believe that the American Bankers Association and the United States Chamber of Commerce are working along parallel lines and it has always been the intention of the officers of the American Bankers Association to cooperate in every way with the Chamber of Commerce.

The convention was a great success, very largely attended, and I hope it did some good.

The next report will be that of the Committee of Five, Thos. B. McAdams, Chairman.

## REPORT OF COMMITTEE OF FIVE

THOS. B. McADAMS, CHAIRMAN

During the year your Committee has had two meetings and has given careful consideration to the development of the exchange question. Conferences have been held with members of Congress and the Federal Reserve Board. Investigation reveals the fact that any effort to pass new legislation having for its purpose the clarifying of the language of the existing statutes dealing with the exchange question, would be strenuously opposed by the leaders of the Banking and Currency Committee of both houses, the Secretary of the Treasury and the Federal Reserve Board. Even should it be possible to pass such legislation in the face of this opposition, we feel confident that such pressure would be brought to bear upon the President by those closely associated with him, that he would veto the measure.

The General Counsel of the American Bankers Association is still of the opinion that there is reasonable ground for contending that the rulings of the Federal Reserve Board of this subject are not in entire accord with the language and spirit of the existing statute, and your Committee believes that at this time, relief can only be secured through the institution of proper legal proceedings.

**PRESIDENT MADDOX:** The report will be received and filed, unless there is some discussion from the delegates present.

The first Section report in the order of this morning's session is the report of the Trust Company Section, John W. Platten, President.

**MAJOR DINKINS:** In the absence of Mr. Platten I have been asked to read his report.

## REPORT OF THE TRUST COMPANY SECTION

JOHN W. PLATTEN, PRESIDENT

Since the Chicago Convention the Trust Company Section has been very active in developing forms of service of particular interest and value to its members.

The Executive Committee has held its meetings throughout the year, and the various sub-committees have met at frequent intervals in order to confer regarding the work in hand. A few of the concrete accomplishments may be stated as follows:

a. Through the Committee on Legislation an unnecessary and undesirable feature contained in the Edge Bill was eliminated.

b. The Committee on Protective Laws, having in charge the matter of state legislation pertaining to trust companies, has worked closely in conjunction with the State Legislative Committee of the Association in forwarding or combating bills of primary interest to trust companies introduced in the forty-three state legislatures which have met during the past year.

c. Through the Committee on Publicity a large volume of advertising matter has been collected and distributed, and definite help given through personal visitation at trust company offices and talks before groups of bankers in planning and establishing publicity and new business departments.

d. Many trust company officers have called at the office of the Secretary throughout the year in search of help along this particular line, and much service rendered by him in cooperation with the Committee.

e. The Committee on Standardisation of Forms and Charges has conducted a nation-wide investigation in reference to trust company fees, and has presented at this convention a comprehensive report, accompanied by a schedule of fees for various forms of trust company service as they are in force in different parts of the country.

f. The Committee on Cooperation with the Bar, which was appointed at the Chicago convention to endeavor to harmonize the existing conditions between the legal profession and trust companies, and to eliminate as far as practicable any causes for such misunderstanding or lack of coordination as may exist, has made excellent progress, and we confidently hope that before another year has elapsed complete harmony between trust companies and attorneys will obtain in all parts of the country.

g. The Committee on Fiduciary Protection for Men in Service, also appointed at the Chicago convention, performed excellent

service until the date when the armistice was signed, after which its activities ceased.

h. The Committee on Railroad Securities has kept in close touch with the various plans promulgated and bills introduced upon this all important situation. Its policy at the present time is one of watchful waiting in order that the influence of the trust companies of the United States may be availed of at the proper time to assist in the passage of a bill which it is hoped will evolve from the present confusion which exists in reference to this matter.

i. At the meeting held at White Sulphur Springs, West Virginia, a special Committee on Legislation was created to co-operate with similar committees from the Savings Bank and State Bank Sections in order that joint consideration by the three committees would lead to concerted and harmonious action upon the part of the state chartered sections in connection with legislative matters needing attention from time to time.

The State Vice-Presidents of the Section have performed valuable service throughout the year, and it is believed that through these officers much will be accomplished during the coming year to direct favorable attention to the work of the Section and open new avenues of service which we can perform.

The Eighth Annual Banquet of the Trust Companies of the United States held under the auspices of the Section in New York City on February 20, brought together nearly eight hundred bank and trust company officers from all parts of the country and proved in points of attendance, popularity and interest up to the high standard set in previous years.

One hundred thirty-two members have been added to the Section this year, making the number of active members 1,563, and associate members 402, totaling 1,965.

The expenditures have been kept within the appropriation granted.

**PRESIDENT MADDOX:** We will now have the report of the Clearing House Section by Mr. Thomas B. McAdams, President.

## REPORT OF CLEARING HOUSE SECTION

THOMAS B. McADAMS, PRESIDENT

The Clearing House Section comprises in its membership every regularly organized clearing house in America, with a total membership of 243 and approximately 5,000 banks.

During the year the energies of the Section have been devoted to the building up of a comprehensive and intelligent financial service and the improvement of banking methods.

The Section suffered a severe loss last December through the resignation of the Secretary, Mr. Jerome Thralls, who resigned to accept the secretaryship of the Discount Corporation of New York. Mr. Amos F. Hill of Boston was selected as his successor and is already rendering a real service in developing those ideas, some old and some new, which are of real value to the clearing house banks of the country.

The expenses of the Section during the past year were \$9,797.90, the increase over the expenses of last year being largely due to the fact that it was necessary to employ a secretary for our Section instead of having one whose time was divided with the National Bank Section.

In addition to the symbols already in use, during the year a wire non-payment symbol has been adopted and recommended to the banks.

A careful analysis is being made of the rules of the various clearing houses of the country, with the view of presenting a digest of these rules so that each clearing house may have the opportunity to adopt such of the rules and regulations in vogue in other centers which have proved of real value to the banks of those cities.

A careful study has been made of the operations of the country clearing house and a detailed report prepared showing the actual saving in dollars and cents through this method of handling checks on banks not collectible through the Federal reserve system. Every effort will be made during the coming year to stimulate the organization of these clearing houses in the several Federal reserve districts where they are needed, so that they will not only serve a local need but also, through an interchange of business between these clearing houses, make less complicated our present collection system, save transit time and reduce expenses.

The form adopted by the Clearing House Section last year for the use of corporations selling their paper in the open market has been put in final shape and recommended to the note brokers for adoption. Committees have been appointed in the various cities for the purpose of getting paper buying banks to insist upon paper offered them for sale being accompanied by this or similar information. It is felt that a bank buying paper originating in other sections of the country is certainly entitled to more data than is contained on the usual balance sheet. Plans are now under way by which we feel confident this statement will be put into general use in the near future, but the details of this plan cannot be announced at this time.

The Clearing Houses of the country again proved themselves to be one of the most important factors in the successful flotation by the Government of the Fourth Liberty and Victory loans, and the banks

are to be congratulated upon the wonderful way in which they measured up to these responsibilities and rendered financial service of such real value to the nation.

**PRESIDENT MADDOX:** The report will be received and filed. We will now hear the report of a very important Section of our Association, the American Institute of Banking, by Mr. J. C. Thomson, President.

## REPORT OF AMERICAN INSTITUTE OF BANKING SECTION

J. C. THOMSON, PRESIDENT

It is a pleasure to come here to report to you for the Section which has received such favorable consideration at the hands of this convention and the Executive Council and which has received such cordial support from this administration. The American Institute of Banking Section is proud of its connection with the parent organization. We also are conscious of our responsibilities in that we are training the men who are to be the future members of this Association.

I want to tell you just a little bit of the progress during the last year. You realize that the first part of the year our efforts were devoted very largely to what help we could render in the way of Liberty Loan work and the war savings campaign, and the Institute has been a very vital factor in every city where we have a chapter in helping the war savings campaign and in helping in the work of promoting thrift, and of trying to teach the people to save and spend wisely.

In spite of flu and in spite of war conditions, the Institute has a gain of over twelve per cent in its membership this year and now has nearly 24,000 members. We have cut out from our work every chapter which has not been active, and have also organized ten new chapters this year, including two State Chapters. These State Chapters are a new feature in the Institute work. We are hoping that we will be able to reach the majority of the bank men in this country which we have not been able to do so far through the organization of such chapters. These State Chapters will serve the men in the banks in the smaller states, which are too small to have a chapter, reaching the individuals through the formation of groups, and organizing them in a State Chapter to give them something of the benefit of personal contact and the competition which comes through such chapters. We are hoping that in that way the Institute may be a factor in many places where it has not been heretofore. You will be interested to

know that four hundred men have received the Institute certificate, which means that they have completed a three-year course in economics, banking and law. During the past year over thirty-two hundred men have done that. Most of these certificates are issued by the chapters under the arrangement whereby those certificates and the work that those men have done, receive actual credit for degrees in recognized state universities, so that you may be sure that the work that is done and the work that has been required to receive that certificate is of a very high character.

The Institute has offered the facilities of its educational forces to the women employes of the bank, and we have done that in order that the Institute might do what it had agreed to do to serve the banks better. The Institute has grown. I wish you could have attended the graduation exercises of New York Chapter last year. The New York Chapter had a class of five hundred members during the year. They had graduation exercises at which they had a regular organized class. The bankers of New York came and saw the graduates of their own banks who had completed this course of study and who, at the end of three or four years had a lot of knowledge, a lot of information that you older gentlemen would have been glad to have had when you were starting in the banking business. That has been true all over the country, San Francisco, Chicago, Boston and various chapters are making wonderful progress until today the Institute is in a position where we are proud of the quality of the work that we are building. The Institute has made good.

I do not need to tell you that if you had come to the dinner of the Institute Alumni which was organized at the annual dinner last year, you would have seen that many of the men who are leaders in the various sections are prominent Institute men. I do not need to tell you that the Institute man as an individual has made good. But I am going to tell you something that you may not have noticed yet, that the bank which is an Institute bank—and I know at least one bank in this country which is proud to call itself an Institute bank—is distinguished for the services that it has rendered. The next step in recognition of the Institute is going to be when the banks realize that the Institute bank is the best bank.

We realize that the banker today has got to come in contact with outside elements, in line with changing conditions. You are familiar with the unrest in this country. There is a large class of the men in this country that are trying to better themselves through the method of strikes and organization. The principle formulated by your organization twenty years ago is used by the American Institute of Banking, whereby men in the banks are training themselves through their own efforts and your advice, knowing that they are learning through practical experience so they may take the business and go ahead as



a result of that experience. These men are in the banks, they are happy and contented and work because they know they can advance themselves through their and your efforts.

The banks of America in this condition of unrest, in this unsettled time, could do no better thing than to show to other organizations, particularly the labor organizations, that men who work side by side as officers and employees can work together in harmony, can develop themselves and can through their efforts and their education advance themselves. I submit to you that there is a thought worth thinking of. Further than that, your Association has appointed a Committee on Education. That committee has done some splendid research work this past year. As I understand it, that committee is to extend its efforts and the Association will try to do what your President has said is one of the most important things this Association has ever done—mold public opinion, and particularly that of young children, and young people who are coming on, in order that they may understand your business, in order that they may have proper ideas of thrift and of economy. Do you realize that in the 24,000 or 25,000 young men who have been trained in the principles of economics, banking and law, who have just recently completed their school years, who are equipped through public speaking courses to speak, there is the finest body that you could possibly get to carry on that work?

Gentlemen, the Institute is proud of its connection with your Association. The Institute is attempting to finance itself and administer itself as far as self-government is concerned. We appreciate everything you have done; we are at your service. I am sure that during the next year, with your help, the Institute as a whole is going to have one of the best years in its history. I thank you very much. (Applause.)

**PRESIDENT MADDOX:** The next report is from the State Secretaries Association, Mr. F. H. Colburn, President.

## REPORT OF STATE SECRETARIES SECTION

### FREDERICK H. COLBURN, PRESIDENT

Two-thirds of the members of this section are in attendance at the St. Louis convention. If the general membership of the Association was represented in like proportion there would have been approximately 13,000 members represented. These secretaries faithfully attended the two sessions of their meeting here, this by way of illustration that they are earnest in their work. They are here in a line of endeavor as a part of their year's work, and it would create in your minds a very sincere regard could you be present at our meetings.

It is a compliment to General Secretary Farnsworth that this far-sighted policy in gathering these secretaries together has achieved such splendid results.

This section is a channel for the transmission of suggestions from the fountain head to members of the American Bankers Association through the respective state secretaries. The various state bankers' associations include a membership reaching about 10,000 banks, in addition to the tremendous membership of the American Bankers Association. Results are evidenced in the enactment by various state legislatures of uniform laws as proposed by your General Counsel and State Legislative Committee of the American Bankers Association.

No state secretary can be expected to originate every movement or policy for the benefit and protection of members. Realising this, the secretaries feel the need of receiving at first hand information as to matters tried and tested in other associations and found to be worthy of adoption. Each secretary is also desirous of aiding each of the other secretaries. Our section meetings are productive of excellent results. Our proceedings do not consist of a series of set speeches. We hear such at our state conventions. When we foregather, the atmosphere is one of free speech—without regard to the official reporter and you may be certain that our proceedings are carefully edited, expurgated, censored and deleted before being passed to print.

We believe in coordination of effort, and we endeavor to eliminate duplication. We do cooperate heartily, especially in policies founded by the parent Association.

The expense of maintaining the Secretaries Section is slight compared to value of results attained. Your Executive Council realizing this increased its appropriation for the Association year just closed. We were enabled thereby to secure the services of a most active and efficient Secretary at a slight compensation. During the year there were issued from his office sixteen special bulletins, averaging six pages each. These were transmitted to the president, vice-president and secretaries of all state associations and to members of your Administrative Committee and others interested. The subjects comprise a multiplicity of up-to-date topics so that no secretary need be uninformed as to matters which the American Bankers Association desires to have promulgated. The total expense to your Association last year including stenographic report and publication of our proceedings, printed matter, expenses incurred by members of Board of Control in attending Spring meeting of the Council, etc., was somewhat less than \$2,500.00, as per details included in your General Secretary's report.

Every Section of the American Bankers Association, including National, State, Savings, Trust and Clearing House Sections, finds a willing ear and helping hand in the Secretaries Section. This is particularly

noticeable in cooperation with your Protective Department. As an instance of cooperation it may be cited that at our meeting held yesterday there was adopted a resolution to the effect that all members of the Secretaries Section pledge their cooperation to your National Committee for Thrift Week. You will note that our Section did not appoint a sub-committee charged with giving attention to the subject, but instead all our members are included as a committee of the whole, each participating in necessary work of carrying out the general program. Attention is likewise directed to the manner in which the members of the Secretaries Section cooperated in bringing the Correspondence Course of the American Institute of Banking to the direct attention of bankers throughout the country. Although each secretary is primarily an employee of his respective state association we have an abiding faith in the American Bankers Association in the same sense that we realize the necessity for a National Congress, even though each state has its legislative body.

The Organization of State Secretaries was in existence before it was adopted as a Section of the American Bankers Association, but if you will continue to recognize its efforts by designating the President and Vice-President of this Section as members of your Executive Council for the brief term of one year, and if you will at times include some secretary of this Section in the makeup of an occasional committee, such as your Committee on Education, it will stimulate our members to greater efforts in your behalf.

I voice the sentiment of all our members in expressing appreciation of your past recognition, for which we are duly grateful.

**PRESIDENT MADDOX:** The National Bank Section, Mr. Oliver J. Sands, President.

## REPORT OF NATIONAL BANK SECTION

### OLIVER J. SANDS, PRESIDENT

The National Bank Section was organized at Seattle, Wash., four years ago. From the outset the officers and others actively interested in this Section realized that it would not attain full usefulness to its members until it had an office in the city of Washington, and a competent representative in charge. At successive conventions of the Association and meetings of the Executive Council requests were made for authority, and at the meeting of the Council at White Sulphur Springs, W. Va., last May the prayer of the Section was granted. On the first of July the Washington branch service office of the Section was opened in Room 1 of the Southern Building which is situated one block from the United States Treasury, and since that date the

Section secretary has divided his time and labors between the general offices in New York and the Washington branch office. The experiment has more than realized our expectation. From all parts of the country the Washington office is in receipt of requests for the performance of various services in connection with the Administration, the two houses of Congress, the Federal departments and bankers who journey to the capital find in the office sources of information which contribute to their convenience and enable them to perform their missions expeditiously and with a minimum expenditure of effort.

A gratifying feature is that the business of the office steadily increases, proving that the bankers of the United States see in this agency a reliable and authoritative means of accomplishing various purposes which have relation to the administrative, the law-making and the departmental headquarters of our Republic. Our Washington office is distinctively a service station and we earnestly and cordially invite bankers to avail themselves by personal visit or by correspondence of all our facilities and conveniences. It is proper here to state that our office has established cordial relations between banks of the country, national legislators and government officials. We are confident that the coming year will witness a quickening of interest in this undertaking by bankers in every part of the country and that our sphere of usefulness will broaden greatly.

On behalf of the National Bank Section it is our privilege at this time to gratefully acknowledge the liberality and good will of the Executive Council in cheerfully according to us the opportunity to carry into effect our long cherished plan to render interested, direct and reliable service not alone to the national chartered institutions but to all those who support and maintain this Association, without regard to section lines, but to all who may proffer a request.

The American Bankers Association is one of the greatest organizations in the world. Its plan of organization is the result of years of labor and experience. It should continue to foster the work of its several classes of members through the sections, permitting these sections to serve their own membership to the fullest possible extent, but exercising over all the corrective and restraining influence of a wise and devoted parent, thus avoiding duplication of effort and waste of money and energy.

During the past year the Executive Committee has held three meetings. Mr. Jerome Thralls resigned as secretary of the Section and Major Fred. W. Hyde was elected to fill the vacancy. Mr. A. F. Dawson, of Davenport, Iowa, was elected to fill out the term as a member of the Executive Committee of Mr. N. N. Lampert, of Chicago, whose death occurred shortly after the convention of 1918.

Standing committees of the section have studied the questions of "Acceptance," "State Taxation of National Banks," "Forms for Use

in Banks," "Post War Conditions," and "Secret Assignment of Accounts" and have made reports thereon. In addition the subject of "Latin-American Trade" has been discussed and a communication relating thereto submitted to the Association's Committee on Commerce and Marine.

This Section has cooperated with the general office throughout the year in efforts to increase the membership of Association and Section, and the results have been encouraging; a year ago the National Bank Section had 6,337 members while now the total is 6,616, a gain of 279 during the year. On August 31, 1919, the non-member National banks in the United States numbered 1,289. There will be no relaxation the coming year in our purpose to enroll every National bank in the American Bankers Association.

It is a matter of justified pride with the National Bank Section that the Federal Reserve Board welcomes our cooperation and manifests a friendly and helpful attitude toward us that is certain to be productive of good results to all bankers and to the financial and commercial interests of our beloved country.

**PRESIDENT MADDOX:** Next is the report of the Insurance Committee, Henry S. Parker, Chairman. Mr. Parker is not in the city. If there is no objection the report will be received and filed.

## REPORT OF THE INSURANCE COMMITTEE

### H. G. PARKER, CHAIRMAN

Gentlemen:—At the last annual convention of the American Bankers Association held in Chicago, Ill., the Insurance Committee, as a committee of the Association, was discontinued and under a constitutional amendment the Insurance Committee was made a Council Committee. The former Insurance Committee recommended that Mr. L. W. Gammon, Manager of the Protective Department, be made permanent secretary of the committee. The Executive Council approved this action.

During the past twelve months the unsettled condition of the country has apparently encouraged depredations of the character of burglary and hold-up, which give the insurance policies covering these crimes an increased importance. In the time indicated, twelve months up to August 31, 1919, there have been 50 burglaries and 27 attempted burglaries on member banks, the loss by these amounting to \$98,892.29, and there have been 54 hold-ups on member banks with loss of the large amount of \$424,802.72. This is far in excess of the experience

of any previous twelve months, and it is reasonably expected during the period of reconstruction and unrest this will continue and likely increase. The Burglary Insurance Underwriters Association have recently decided, because of this increase in crime, to separate the burglary and hold-up clauses in the policy. In other words, the burglary and robbery policy will cover only burglary, which to cover hold-ups an additional charge of \$1 per thousand of insurance will be charged.

The issue and distribution of some eighteen billion Liberty Bonds by the Government to the people introduces another problem. The safekeeping of these bonds must be provided for by the banks through the more extended use of the safe-deposit boxes, which are not now covered by our present policies, except where the physical location of safe-deposit boxes are within the vault that contains the money chests and securities belonging to the bank contents of said boxes are covered to the extent of 10 per cent of the face of the policy on property of the bank.

To meet this situation your committee have authorized a rider which may be attached to the A. B. A. form, and for an additional charge based on equipment will insure the contents of any one or individual box up to \$5,000.

We have authorized the various insurance companies to place an indorsement on the 1918 copyrighted bank burglary and robbery policy covering securities, including U. S. Government bonds and war savings stamps that are not the property of the bank in safe-deposit boxes and the contents of which are unknown to the banks.

During the past twelve months ending August 31, 1919, every member that has been burglarized or held up has been written to regarding their loss, with the suggestion that they forward their policy or policies, by registered mail, to the Insurance Committee for inspection and information. Most of these members have taken advantage of this offer and a large number of opinions have been rendered, the advantage of the A. B. A. form emphasized, and suggestions made that they discontinue the use of the existing policies at their expiration and use the A. B. A. copyrighted form, which has a much broader coverage than any other on the market.

The character of the Insurance Committee service to members is illustrated by the recital of a few instances taken at random. One of our members in the state of Washington had a defalcation. They originally asked the security company for A. B. A. forms, but accepted another form; subsequently having a defalcation, they discovered in their policy they would have to prorate the salvage with the company, while under the A. B. A. form they would have been entitled to all the salvage up to their loss. They took the matter up with the company and had considerable correspondence relative to con-

struing this policy as an A. B. A. form. The company refused to construe their policy as such, then the bank referred the matter to the Insurance Committee, who went into the same very carefully, with the result that the security company agreed to construe the policy as that of an A. B. A. form and from the salvage the bank recovered an additional 50 per cent of the face of the policy.

There was another case where a bank member was burglarized, and they organized a posse and requested the insurance company to pay the expense incurred. The company refused and stated that such expense was not covered by their policy, which was correct. The matter was taken up with the Insurance Committee and the company agreed to stand the expense incurred by the bank and notified their adjustors accordingly.

There is still another case where a bank member was burglarized. The burglars stole several thousand dollars' worth of registered bonds of the last issue. It appears that the first coupon on these bonds was a cash or bearer coupon. The agent of the insurance company contended that the company was not liable for the coupons or for the expenses incurred by the bank in furnishing a surety bond to the government in order to have a new bond issued. The bank took the matter up with the Insurance Committee, who conferred with the insuring company with the result the company concluded to pay the claim of the bank.

A most interesting and unusual situation recently developed by reason of the interpretation of the United States Circuit Court of Louisiana, of certain language appearing in the American Bankers Association Copyrighted Form Bank Burglary and Robbery Policy, the outcome of which is of great importance and interest to all member banks.

The 1918 and 1914 Copyrighted Bank Burglary and Robbery Policy forms of the Association cover, under Section I, General Agreement "B," in the 1918 form, and Section I, General Agreement "C," in the 1914 form, all loss by robbery of money and securities, "from within the banking enclosure reserved for the use of officers or office employees of the assured." General Agreement "B" in the 1918 form and General Agreement "C" in the 1914 form also provides that robbery is covered "from within that part of the safe or safes or vaults insured hereunder, caused by robberies during the day or night by compelling an officer or an office employee of the assured to unlock and open the safe or safes or vault."

The decision of the United States Circuit Court of Louisiana above referred to held that the safe or safes or vault were not necessarily a part of the banking enclosure reserved for the use of officers or office employees of the assured, and that the policy did not cover the robbery of money and securities from the safe or safes or vault unless

the safe or safes or vault were closed and locked and the robbers compelled some officer or office employee to unlock and open same.

Recently a member bank of the Association sustained a loss by robbery of \$59,000, approximately \$38,000 of which was due to the abstraction of money and securities from unlocked safes and vaults by the robbers, which safes and vaults were open in the usual conduct of the bank's business, and which was not opened at the time of the robbery by any officer or office employee being compelled to do so by the robbers. The insurance company covering this member bank under the American Bankers Association copyrighted form held that it had no liability for that part of the loss being approximately \$38,000 above described. The insurance company quoted the decision of the Louisiana court above outlined. The matter was referred by the bank to the Insurance Committee of the American Bankers Association, which committee, through its secretary, took the case up with the insurance company. It was the contention of the Insurance Committee that the copyrighted policy as compiled by the Insurance Committee in conference with the Bank Committee of the Burglary Underwriters Association, and after frequent and full discussions by and between these two committees both the language and the intent of the policy were agreed upon; that it was neither the intent of the policy or of either committee that any loss occurring under the conditions cited in this article should be excluded from the policy. The insurance company agreed to submit the whole matter to the Insurance Committee of the American Bankers Association for a decision as to whether or not the claim of the bank should be paid. The Insurance Committee unanimously agreed that the claim should be paid, and the insurance company, upon being duly notified of that decision, promptly transmitted to the bank its check in full settlement.

The Insurance Committee, through its secretary, then brought the whole situation to the attention of the Burglary Underwriters Association, with the result that an indorsement was agreed upon which would clearly eliminate any further doubt as to the coverage of the policy under conditions of this sort. The indorsement was then submitted to all of the insurance companies licensed to write the American Bankers Association copyright forms, and all companies unanimously agreed not only to attach this indorsement to all copyright burglary forms hereafter issued by them, but also to construe all existing and outstanding policies written on the copyright forms as covering in accordance with the indorsement.

The members of the Insurance Committee and its secretary are greatly pleased with this result—first, because it clears up satisfactorily a doubtful clause in the policy, and second, because it indicated that the impartial and fair attitude which the Insurance Committee has tried at all times to assume in all matters between member banks and



insurance companies, has caused insurance companies to abandon technical positions to seek a just and fair and liberal basis upon which to do business with the member banks of this Association.

All the thirty-three insurance companies licensed to write the copyrighted form of the American Bankers Association have agreed to use the indorsement referred to on the new policies and to construe existing policies as subject to the terms of the indorsement, whether or not such indorsement appears on the policy. For your further information a copy of the indorsement agreed upon is as follows: "From within the banking enclosure reserved for the use of officers or office employees of the assured, or from within any locked or unlocked safe or vault, located within or opening directly into said enclosure, provided at least one officer or office employee of the assured is present and regularly at work in the said premises."

On September 8, 1919, there was a meeting held at the Hotel Traymore, Atlantic City, N. J., by your Insurance Committee and the burglary insurance companies. There has never been a meeting held before of the companies themselves and the Insurance Committee. The program comprised:

First: New copyright burglary policy 1919 issue. This policy was discussed very fully and certain changes were suggested by the various insurance companies. The proposed form of policy was then submitted to the Burglary Underwriters Association at their meeting the following day at Atlantic City and they are to submit a new draft to the Insurance Committee for such action as they deem advisable in the near future. There are no radical changes contemplated but a few in clearing up certain phraseology.

Second: Special copyright form to cover securities only at reduced rate. This is to be taken care of by the proposed changes in the 1919 form.

Third: Safety deposit box coverage. It was unanimously voted that a separate and distinct policy be gotten out to cover the insurance to banks covering the safe-deposit boxes be drafted and adopted.

Fourth: Forgery coverage. This subject was referred to the Fidelity Section, as the Burglary Departments decided it was better to confine that class of coverage to the surety end.

Fifth: Increase in rate on hold-up insurance. The Burglary Insurance Underwriters Association submitted figures for the past eighteen or nineteen months, showing the actual loss by states (shown below) paid in connection with burglaries and holdups and the cases still pending, they dividing two classes.

States	Robbery Paid	Robbery Outstanding	Burglary Paid	Burglary Outstanding
Arizona .....	\$100 00		\$1,356 87	
Arkansas .....	17,120 04	\$5,000 00	8,162 30	\$600 00
California .....	20,571 91		324 43	
Colorado .....	100 00		999 46	
Florida .....			676 50	
Georgia .....			6,808 66	5,150 00
Illinois .....	197,471 29		61,379 56	4,008 85
Indiana .....	36,844 26		10,153 71	267 00
Iowa .....	11,508 78	20,000 00	10,481 25	
Kansas .....	86,249 00	21,935 00	12,882 88	2,802 00
Kentucky .....	3 93	1,000 00	800 00	
Louisiana .....	10,000 00	7,000 00		
Maryland .....			107 50	
Michigan .....	5,502 44		6,195 18	825 00
Mississippi .....			84 77	
Missouri .....	63,173 75	50 00	14,188 07	100 00
Minnesota .....	55,271 47	11,500 00	188 15	
Montana .....			3,272 95	
New Mexico .....	1,343 26		17 90	
Nebraska .....			500 00	
New York .....	3,966 55		2,238 11	
North Carolina .....			66 70	
North Dakota .....			24,359 02	
Ohio .....	18,293 00		5,098 20	1,750 00
Oklahoma .....	33,644 24	23,000 00	292 98	445 00
Oregon .....	7,054 50		345 55	71 80
Pennsylvania .....	2,728 00	400 00	2,506 30	
South Carolina .....			142 28	
South Dakota .....	3,500 00		84 59	
Tennessee .....	6,397 50			250 00
Texas .....	475 00	1,000 00	508 25	554 00
Washington .....	6,797 52		74 52	300 00
West Virginia .....	2,008 75		1,305 73	
Wisconsin .....	3,300 00		691 17	200 00
Wyoming .....	300 00			
Virginia .....				200 00
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	\$593,725 19	\$90,885 00	\$176,293 54	\$17,523 65

Total robbery reported claims, \$684,610.19. (This is 78 per cent of all losses.)

Total burglary reported claims, \$193,817.19.

Total of above as itemized:

Robbery paid up .....	\$593,725 19
Robbery outstanding .....	90,885 00
Burglary paid up .....	176,293 54
Burglary outstanding .....	17,523 65

They also report the robbery losses as itemized from newspaper clippings as follows, for which it is worth:

Money .....	\$1,120,353 00
Securities .....	938,050 00
Money and securities .....	288,000 00
<b>Total .....</b>	<b>\$2,346,403 00</b>

This is the first time that the Burglary Insurance Underwriters Association have submitted any figures as to the losses that they have paid, as they have always claimed that they did not separate the bank business from their other burglary lines. The committee did not go on record as approving or disapproving the action of the insurance companies increasing their rates, but their figures submitted would indicate that they have not made any profit on the bank burglary and robbery business for the past eighteen or nineteen months. They also stated that their annual premium was about \$500,000. Your committee is engaged in checking up these figures. There were about forty people present at the meeting, including your committee and its secretary and General Counsel, Mr. Thomas B. Paton, and the secretary of the Burglary Insurance Underwriters Association.

The Hartley-Cooper Group of Lloyds have submitted a new form of Lloyds Blanket Bank Policy for the approval of the Insurance Committee. This form was discussed very fully by the Insurance Committee and by General Counsel Paton. General Counsel Paton made some suggestions as to changes which Lloyds agreed to insert. The new draft of the blanket bond gives the banks a wider coverage than anything that has heretofore been seen in the American or foreign markets, but the Insurance Committee, as has been its custom in the past whenever approving the form of any Lloyds contract to qualify with a statement that while the reputation of the Hartley-Cooper Group for paying claims in America is high, it is nevertheless a fact that in the event of differences between the bank and Lloyds resulting in litigation, suit would have to be brought abroad.

One particular clause (covering forgery) we wish to call your particular attention to is as follows: "By reason of the payment, whether received over the counter or through the clearing house or by mail, of forged or raised checks or (genuine) checks bearing forged indorsement or the establishment of any credit to any customer on the faith

of such checks." In the American blanket bond there is no such clause, as the American bond does not cover forgeries of any kind.

The Insurance Committee has approved the Lloyds blanket bond as to form and further qualified their approval by the explanation as previously outlined.

Thirty-three insurance companies have been licensed to execute our 1918 copyrighted bank burglary and robbery policy of the Association and thirty-five companies have been licensed to execute the 1913 copyrighted form of Fidelity bond.

In concluding this report your committee desires to express their appreciation of the loyal and efficient service of our secretary, Mr. L. W. Gammon.

**PRESIDENT MADDOX:** The State Bank Section, Mr. Craig B. Hazlewood, President.

## REPORT OF STATE BANK SECTION

### C. B. HAZLEWOOD, PRESIDENT

The State Bank Section is functioning properly. We have 9,500 members, about 500 members less than one-half of the total membership of the Association.

The year's work is consummated in the general sessions of the section held at this convention. Topics of primary interest to country state banks who constitute a very large part of its membership are to be considered. These problems are principally the codification of state bank laws, trust powers for state banks, exchange and country bank advertising.

The State Bank Section is very pleased to say that a harmonious spirit now appears to prevail among the state chartered banks of the country.

Certain amendments to the Constitution of the American Bankers Association, approved by the Executive Council, will be submitted to you, which will empower any section of the Association to present direct in its own name and at its own expense any legislative matter of special interest to that section without interference of the Association as a whole.

This is a democratic measure, as if any section presents matters which may be inimical to any other section, that other section may be depended upon to present its case as well.

If these amendments are approved at this convention, the officers of the United States Council of State Banking Institutions, which was organized in this city two years ago, will recommend the dissolution of that organization and the reuniting of their efforts through the three state chartered sections of the American Bankers Association.

This is a busy world and duplication of effort should be avoided whenever possible. The consolidation of effort I refer to will go a long way toward giving state chartered banks of the country fair and efficient representation.

**PRESIDENT MADDOX:** Report of the Federal Reserve Membership Campaign Committee, Mr. Puelicher.

**MR. PUELICHER:** There are approximately 9,000 state banks in this country that are eligible to membership in the Federal reserve system. Of that number there have joined the system during the past two years 1,035 state banks, with total assets of \$8,139,460,000. I feel that those banks have been well served by the system. I feel that the system was inaugurated at a time when it proved itself of the utmost usefulness to our country. I can't conceive how we could have financed the great war into which our country was plunged but for the fact of the existence of the Federal reserve system and of the support of that system by the state banks of the country. (Applause.) I hope that during the coming year a great many of the 9,000 eligible state banks that are not yet members of the system may find it wise to join. Thank you, Mr. President. (Applause.)

**PRESIDENT MADDOX:** We are very fortunate this morning in having with us a gentleman who really needs no introduction, who has served his state so splendidly as Congressman and also the Government as Alien Property Custodian through the trying war times and has more recently accepted the position of Attorney General of the United States. It will be a pleasure to you and to us to have him speak to us on the "Problems of Today."

## PROBLEMS OF TODAY

**ATTORNEY GENERAL A. MITCHELL PALMER**

The problems which press upon us now with insistent demand for solution will test our capacity to serve Christian civilization in a way that men of the past have never been tested. The peace and happiness of the myriad millions of the earth's people are in the bal-

ance, to be won or lost by the wisdom, the fidelity and the industry of men who today dream that the world will sometime be a place where all men may live their own lives with assurance that not by might but by right, not by force but by common consent, will they receive that share of the world's wealth and the happiness of living which the Creator designed His people to enjoy.

The world is smaller than it ever was before. The oceans are spanned by the voices of men almost instantaneously carried around the world. The air, the sea, and the land have all been conquered and harnessed to do without delay the impatient commands of men. A new revolution today in unhappy Russia, a newly discovered diamond mine on the west coast of Africa, a tribal war in the mountains of India, a reform measure in the Parliament of New Zealand, are alike the subject of interest and discussion the morning after at the breakfast tables of civilized men the world around. Nothing that the world does is any longer a secret. Nothing that a nation may do is any longer the concern of that nation only, but affects the entire human race. The new problems with which we must grapple will always have relation to the new conditions created by the closeness of all peoples to each other. We cannot escape the consideration of those problems, if we would, for the world has come to believe that having conducted the most successful experiment in free government in all history, we cannot abdicate the leadership which that success has earned.

It is a block in the path of real progress that there are so many people who fail to understand what America stands for and to realize the responsibility which attaches to its leadership in free government. There are eminent American citizens of great intelligence and undoubted patriotism who preach the gospel of aloofness from the rest of the world which present day conditions make absolutely impossible; neither the safety of the Republic nor the happiness of the people who dwell beneath its aegis will be served by a narrow nationalism which refuses to be responsive to the currents of thought and action elsewhere in the world, which may affect us at any moment as they touched us in the world war and compelled our intervention. We cannot any longer play the bystander's part. We must do our share toward maintaining the peace of the world if only for our own sake, because every time that peace is upset, wherever the trouble may come, the reaction affects us and our interests.

We must also set an example of the ability of a popular government to keep pace with the aspirations of men who seek a liberty founded on justice and equal treatment for every class. To this end we shall need to do two things. We must set our faces like flint against methods which will result, through class war, in class dictation; and we must at the same time find a solvent for conditions which,

according to the claims of the ultra-radical agitators, offer some excuse for a class dictatorship—a solvent which will disarm those agitators by leaving without just grievance those whom they seek to lead.

There are amongst us some who do not or will not understand and appreciate the capacity of a free government such as ours to do that which will serve the common good. Fortunately there are not many such amongst the people who were born here or who have lived here long enough to become fully Americanized, but we have admitted, if not welcomed, to our shores in recent years many who have lived in foreign lands under conditions which have given them no opportunity to understand popular government. They have lived where autocracy has held masterful sway and where the people have been taught through generations and centuries that government and tyranny are synonymous terms. Against such conditions the people in Europe have revolted. Autocrats have been swept from their thrones and the reins of government taken over by the people untaught in free government, who have, in accordance with every precedent in history, carried excesses to the other extreme. In the course of time, these new governments will find themselves, the pendulum will swing back to the plumb line, and popular government, as we understand it, will be universal in Europe.

Many of those who have come here out of such conditions profess to see little difference between this government and those from which they have come. They seem to think there is justification for repetition here of the forcible methods which have been pursued in Europe to change the forms of government. Many of these are honestly mistaken, many others are self-seekers who play upon the ignorance of their fellows. There is no room, as there is no need, in this country for those who resort to violence to impress their ultra-radical views upon the people or the government. They will get nowhere by such methods. The government must protect itself against attacks from within as carefully and as forcefully as it has shown itself able to protect itself against attacks from without. No officer of the government will be embarrassed or affected, much less frightened, by any attempts, organized or unorganized, by lawless elements in the community to terrorize and stampede the government into doing something contrary to the spirit of our free institutions as designed by the fathers and sustained by all the generations of men through the life of this Republic. Every reform which the most radical may desire to incorporate in our body politic will receive a fair hearing and full consideration and become effective only if and when a majority of the people, through the regular methods provided by the Constitution, shall so decide. No change will be hastened by the use of force. Those who cannot or will not live the life of Americans under our institutions and are unwilling to abide by the methods which we have established

for the improvement of those institutions from time to time, should go back to the countries from which they came. (Great applause.) Every power of the government will be used to compel those who remain here to comport themselves in that obedience to our laws and with that respect for our institutions which are a part of the creed of real Americans.

All the problems which beset men's minds can be worked out in the general interest in a government where the people are the only rulers. But, unless we shall be satisfied with that which is for the general interest and do not insist alone upon that which is in our own particular interest, there will be trouble and delay in the settlement. If men could learn to be patient under conditions which have resulted from the world war until a more accurate estimate of the possibilities of the situation can be made, all our problems will be sooner solved; but if impatience and selfishness shall rule and immediate, forceful or direct action be undertaken, it is perfectly obvious that nothing but disorder and delay can result. The crying need of the world just now is for peace, and not political peace between governments alone, but industrial peace amongst men also. The things for which men fight are never settled while war is on. An armistice must come; heads must be cool; and anger must spend itself before men can sit down together and know what is best for themselves and give due consideration to the rights of others.

But peace alone will not be sufficient. There must come with it an intelligent, sincere and sympathetic effort to readjust the relations of all forces of industry to run true to the new ideals to which the world's eyes have been opened through the grievous trials of the world's greatest war. It is a trite saying, but so obvious a truth that it is too frequently forgotten. You cannot start a factory nor run it a single day, with money alone; you cannot start a factory, nor run it a single day with labor alone. You must have both these ingredients of the real working capital of industry to make the wheels of industry move. One is as necessary as the other. The days of autocracy in government are gone from this earth; there must be no autocracy in industry left standing as a menace to the peace of the world. Through all the ages, in most of the countries of the world, money has dictated to labor what labor shall have out of the products of the joint effort of money and labor.

Although, strong by organisation, labor has had influence in fixing wages, the ultimate decision has been with invested money. In some of those countries the autocracy of money has been swept from its throne so long securely held and an even more menacing autocracy has taken its place. There is no occasion for a similar revolt here, for men will soon come to see that there must be built up conditions



more nearly approaching a democracy in industry if our political democracy is to survive and justify its existence.

A fair and equitable distribution of the profits realized upon the products of industry, as well as a system of cooperative control and management of the terms and conditions under which money and labor, yield those products, must be devised. Neither money nor labor should be permitted to dictate or control the other, but both should participate in the fruits of their common service in just proportion to their contributions.

The imperative necessity is a fuller cooperation to bring about greater production at less cost, without sacrifice of the earnings of either money or labor and with a just division of those earnings. Such cooperation must look to other things than mere increase in the wages of labor or the dividends of invested money. It must look to increased business, better working conditions, greater opportunity and reward for individual initiative, and, in short, all the factors that go to make success. Neither wages nor profits can thrive upon failure; and failure must be the portion of any plan which gives control of industry to any class which proposes to exercise that control only to win increased profit for itself. There should be no fear in the mind of either employer or employee of a democratized industry on such a basis of just cooperation having in view a greater success in industrial effort. It is the middle ground, which once taken and securely held will avoid the obvious dangers of both extremes. We have been taught to believe in the safety of that middle ground in all our political thinking by more than a century's experience with a representative democracy in government. Cooperative control in industry is not the first step toward either nationalization or class control. It is the recognition of the very principle which has made our government not alone great but responsible to popular will in a way that protects the interests of all. There is danger in refusing to act upon this principle now that the time is here, not merely to "do something" for labor, not merely to be "good" to labor, but to be exactly just to labor, and not just to labor only but to every factor necessary to bring successful production in industry.

All of this may be difficult to accomplish, but the difficulty only increases the importance of attempting it. Harder problems have been solved on American soil since the fathers first held aloft the flaming torches of liberty and democracy for all the world to see.

In the meantime, while plans of this nature are being worked out by thoughtful men at both ends of the industrial organization, let us have peace. If we could have an absolute industrial armistice in America for six months; if both the necessary ingredients of capital, that is, both money and labor, would be active and constant in the problems of production, the busy peaceful days would soon yield a

spirit which would make it possible for men to solve the problems which now confront us. If money and labor would both make a demonstration of the enormous capacity of American genius to produce the things which are necessary for human kind, we would soon run into an era of easier living and better times for all, and the peace made by such an armistice would be continued as the permanent peace resulting from mutual good-will. Idleness is no panacea for the ills from which the country suffers. Work may be. The cost of life is only enhanced by the idleness of men; it can be reduced by the intelligent industry of all. Other remedies may bring us part way on the road, but they will never bring us the whole distance. These other remedies should and will be applied, but the most effective cure that can be devised will be the general acceptance by all our people of the golden opportunities of this great land of plenty for all who give the best that is in them.

I would be glad of the opportunity to say a further word, general in character, and nevertheless it seems to me particular in its application to all these great problems, the great problems which have been, as I said, dumped into our lap whether we like it or not, as a result of the greatest war which history has ever recorded. It seems to me that for us in America to make certain that we solve those problems we must keep constantly before us the reason which led America into the great war—what she hoped to accomplish by going in—and all her hopes and aspirations have been affected by the great political and economic changes which the war has brought about. For unless we understand the correct spirit of the 100,000,000 American people who responded to their leader's call in April, 1917, and formed an army, the like of which the world has never seen, unless we understand the spirit that animated them, we cannot know the mind of America in the way that will make it possible for us to settle these great questions brought now before us.

We have got to remember, it seems to me, first: that we went in perfectly satisfied with our form of government, perfectly confident that under that form of government every man, woman and child between the oceans could and would receive that share of the world's wealth to which he was entitled, and that share also of God's happiness which was given to men and women to enjoy. We went into the war firmly convinced that a century of experience had demonstrated the success of this great democracy between the seas, that we were prepared to implant its ideals upon all the world for their sake and for ours. It is not mere rhetoric to say that I am old-fashioned about this thing, and the reason why we fought. Somebody told me one day that we went to war because Germany shot up a couple of ships and destroyed American lives. Those things drove us into the war, but we would have gone in without them, eventually. We would have

been driven in by the very logic of America's part in the world's affairs in the last century and a quarter. (Applause.) For I tell you that in order to remember to tell it to our children and have them tell it to theirs, that not for conquest, not for territory, not for indemnities, not for money, not for power, but the United States of America got into the war because she went in to fight for the things for which all good Americans have always been willing to fight.

We forget it, but let us not forget it. The United States of America has never gone to war except in the holy cause of freedom. (Applause.) The United States of America has never gone to war, nor come from a war victorious except human or political freedom was the result. The fathers fought the War of the Revolution, and the nation was freed. Their sons fought the War of 1812, and the seven seas were freed. Their sons fought the war with Mexico and freed the republic of Texas, and the republic of Texas took its place in the Union as a state. Their sons, our fathers, fought the war between the states and a race of people were freed. Their sons, our brothers, fought the war with Spain and Cuba was freed. And now that our boys have come across from over the seas with victory, the whole world is freed. (Great applause.)

I remember reading a story in the early days of the world war. Half a dozen young officers gathered on the aviation field in France. They were discussing the question, which was much discussed in 1914 and 1915, what was the war all about. A young British officer said he didn't know what they were fighting for; the Canadian officer said he came across the sea because England called, but he didn't know why. An Italian officer said he was trying to lick Austria, but he wasn't aware of the reason for it. A young American officer, according to the story, saw a peculiar glimpse come in the eye of a young French officer, and he said to the young French captain, "Do you know what the war is about? Do you know what you are fighting for?" The French captain's answer came out like the spit of a machine gun. He stooped to the ground, picked up a handful of earth, pressed it to his lips, and said: "I fight for France." (Applause.) It was literally true, France was fighting for her very right. Three times the Hun had come within fifty miles of the gates of Paris, within the very heart of France, and three times the French people with a courage never known in history, met the Hun within those fifty miles with the cry, "You shall not pass!" And yet I have often thought that if American men and women had been killed by the millions, killed and wounded; if American cities had been destroyed, rased to the ground; if American nurses had been stood against walls and shot; if American women had suffered from crimes unspeakable; if American children had been butchered before the eyes of their helpless parents—we would never have had any doubt as to why we

fought. And yet, if France had fallen, if Paris had been entered and the channel ports taken, I think Flanders would have come to America, to Georgia and to Maryland. American cities would have been destroyed, American churches violated, American women and American children butchered.

Let our children tell it to theirs, that we fought a war of self-defense; let us teach them to take the soil of our beloved country to their lips and say, "Thank God we fought for America." (Applause.) But more than that, we fought for peace. I am one of those who believe that the reason the American people rose a hundred million strong, almost without a dissenting voice to the support of their government in 1917, was the confident belief on the part of the American people that this was a war against war; (Applause) that it was a war to bring peace to the world.

Perhaps it is because I am a Quaker that I say that. I am a Quaker. I suppose out here in the Mississippi Valley you don't know much about Quakers, but my people came to this country when William Penn pushed his good ship *Welcome* up the Delaware river and landed his little party to found the great experiment in the woods which has since become the great commonwealth of Pennsylvania. From that time to this, through eight generations, my people have held true to the tenets of the Quakers' faith, and chief amongst them is opposition to war and all that pertains to war. I am a good Quaker, and yet I was for this war from the first day to the last. (Applause.) My wife is a Quaker. Through eight generations her people have held the same faith, and yet every boy of military age in her family and mine, though every one of them was descended from a Quaker preacher, was in the uniform of his country in this great war (Applause); and every man of peace—and who in America is not a man of peace—was for this war because we saw in it the end—the end of wars. Why, the war itself was the greatest argument against war that the world has ever seen. Every fair-haired boy who lies today beneath the soil of unhappy Europe, in any country, every widowed wife and orphaned child, every sorrowing mother, every grief-bent father in the unhappy lands that have known the war is an argument swelling up to heaven with more eloquence than has been heard since the morning stars sang together in support of the Christian doctrine, the American doctrine, of Peace on Earth, Good Will to Men. (Applause.)

And so we fought for these things—for liberty, for America and for peace; these three, and the greatest of these is peace. For peace means liberty for everyone; peace means America forever more, and peace means the bright noontide of that glorious day which was ushered in by the Master two thousand years ago when He blessed a weary world: "My Peace I give unto you; my Peace I leave with you." Let me tell you, my countrymen, the hard won victories of

American arms, the sacrifices of American men, the devotions of American women in the great world war, will prove but an evil and futile thing unless we see to it that out of it shall come a greater liberty, a better America, and a surer peace. (Prolonged applause terminating in the rising of the audience.)

**PRESIDENT MADDOX:** Gentlemen: We have another very interesting address to follow, and I am sure you will be very much entertained if you remain. The next speaker on our program is a gentleman who has contributed a number of splendid works on finance, one of the best known political economists in America, who is a financial philosopher, who puts the courage of his convictions in his words, who never loses an opportunity to pour rays of sunshine into the dismal science of political economy. He has also made a very interesting study of longevity and has a record of several centenarians which he is now studying and hopes to include in that list all of the members of the American Bankers Association in time to come. I take pleasure in introducing to you Dr. Irving Fisher of Yale, who will speak on "A Monetary Remedy for the High Cost of Living."

## A MONETARY REMEDY FOR THE HIGH COST OF LIVING

IRVING FISHER

It is a curious fact that bankers, just because they deal primarily in money, are often less interested in the fluctuations in the purchasing power of money than are ordinary merchants who daily watch the course of prices.

Some banks have in times past too often dealt recklessly in their commodity, money, with little realization of the disastrous effects they thus produce on the price level and on business conditions.

But today more than ever before bankers recognize that they perform a public function. No class of business men have tried more conscientiously, during the war, to render patriotic service and few if any other classes in civil life have played a more indispensable part in winning the war.

Now that the war is over the banker sees before him new fields of public usefulness. Besides shouldering a large part of the responsibility for financing the gigantic task of reconstruction throughout the

world he has another great task, namely to help reconstruct the banking and monetary systems of the world. I wish to speak of one fundamental but neglected part of that great task.

This is the problem of curing the instability of money so signally illustrated during the war. It is coming to be realized that this problem of unstable money lies at the bottom not only of the problem of international exchange but of the problem of the High Cost of Living.

The great need of America and still more of Europe today is to stabilize conditions. After the treaty of peace is out of the way, the purpose of which is to restabilize *political* conditions, the next great problem which confronts mankind will be the great economic problem of the high cost of living, a problem of stabilizing *economic* conditions. That is a problem to the solution of which all of us can well afford to give our best efforts. My own conviction is that the solution of this great problem of the high cost of living is primarily a matter of money and banking.

I think we are all struck with the futility of the methods which have thus far been employed or suggested, not excepting price fixing, and recognize the need of something that is based more upon a true diagnosis of the situation.

My old master in political economy, Professor Sumner, used to say, "When you have to deal with a social situation, divide your subject into four heads: First, what is it? second, why is it? third, what of it? and fourth, what are you going to do about it?"

So I shall run rapidly over these four heads, though I am most interested in the last.

First, then, let us see what are the facts in regard to the high cost of living, or, as I prefer to say, in regard to the low purchasing power of the dollar; for to speak of the high cost of living is, of course, identical with speaking of a low purchasing power of the dollar.

We have now in the index number of prices, a means of measuring the facts in the case with considerable exactness. This device, when I was a student of economics, was in its infancy,—but during the last generation it has come to be the practical reliance of merchants and bankers. Today we have the index numbers of Dun, Bradstreet, the United States Department of Labor, and various other public and business agencies throughout the civilized world.

An index number of prices is a figure which shows the average percentage increase or decrease of the *general scale* or "*level*" of prices or "price level," as it is often called. If, since last year, butter goes up four per cent and sugar goes up ten per cent, then on the average butter and sugar have gone up seven per cent or half way between four and ten. 107, then, is the index number of those two articles as compared with 100 per cent, with last year taken as a base for comparison. If we consider butter as more important than sugar, we

simply count butter twice. The average then is not  $4 + 10$ , divided by 2, but  $4 + 4 + 10$ , divided by 3 which gives six. That is, the average rise would be 6 per cent. This result means that the index number is 106 as compared with 100 for last year, the base of comparison. Or if sugar is twice as important as butter then we count sugar twice and take  $4 + 10 + 10$ , divided by 3, which is 8, making the index number 108. Now in all three cases 106, 107 and 108, we get almost the same result. In other words, whether we take a simple average, or "weight" different commodities according to their importance, we get very much the same result. Thus, as an instrument for reckoning, the index number is a practically reliable standard for measuring the price level, or the purchasing power of the dollar.

The index number of the Bureau of Labor Statistics for wholesale prices is computed from 300 commodities for which the prices are secured. This index number rose 106% between 1914 before the war and November, 1918, the month of the armistice, while the index number of the London Statist rose 122%.

Retail prices of food rose in the United States in the same period 79%, in England 133%, and in France approximately 140%.

It is fair to say that the war about doubled prices in general in the United States and Canada and about trebled prices in western Europe, while in Russia it multiplied them by ten or twenty.

The price level of the United States is now three-fold the level of 1896. Expressing the same fact in terms of the purchasing power of money, our dollar of today is worth only about thirty-five cents of the money of 1896. In modern slang we may say almost literally, that, as compared with the biggest dollar we ever had, that of 1896, our present dollar "looks like thirty cents."

Going back, we also know that between the Civil War and 1896 the price level had fallen and that, ever since 1872 when the first good index number begins (for England), we find the purchasing power of money changing.

So far as the facts are concerned, then, our conclusion is that the dollar has always varied, and is always unstable and uncertain. It is on this basic fact that we must build our theories and devise a remedy.

Our second question is: Why is it that the purchasing power of the dollar is forever changing? The dollar as used by bankers for debtors and creditors, for reckoning stocks and bonds, for taking care of trust estates, and so forth, is supposed to be a unit of purchasing power. But we find that it is an unsafe, unstable unit of purchasing power. We should know the cause of this instability and whether it is inevitable or controllable.

I have recorded in my book on "Stabilizing the Dollar," which is soon to come out, some forty alleged explanations for the high cost of living. Of these, the two which are more common in our minds

today, are scarcity and profiteering. And neither of these, nor any of the other explanations, is, I believe, correct though they often touch on subordinate factors in the situation.

While war scarcity has been a factor in raising prices in Europe it has never been the sole factor and so far as I can discover has seldom been the chief factor. In this country statistics of the volume of trade (not in dollars, but in pounds and bushels, and in other units of commerce) fail to show that, even during the war, there was any material scarcity. We must remember also that prices rose fifty per cent before the war, during the period from 1896 to 1913 and 1914, although there was then no progressive scarcity but, as statistics already show, a progressive abundance.

No more can we depend on profiteering as an explanation of the high cost of living. On the contrary, profiteering is a result, not a cause, of rising prices; for it invariably happens that when prices are rising, the prices which the merchant gets for his goods are going up while his fixed costs for rent, interest and salaries do not go up. The result is that profits will fall into his lap. We are making a great mistake if we look simply on the goods side of exchange to find an explanation of the high cost of living. We must look chiefly on the money side.

From the standpoint of probability is it not more likely that we would find in one thing, our currency, rather than in three hundred different things, the explanation of a coincident rise in most prices?

We have statistics which also indicate this. We find, for instance, that, before the war and during the war, countries that have like monetary standards have like price movements, that, for instance, all gold standard countries (so long as they keep the gold standard in operation) have prices moving in sympathy. We find silver standard countries experiencing like sympathetic price movements.

We find however a great contrast between the price movements in gold standard countries and in silver standard countries.

We find also that price movements bear a certain relation to the quantity of money and credit. We find for instance that the first price increase of any consequence in this country after the outbreak of the war began in the fall of 1915, one month after the first big importation of gold into this country. We find later, when the gold import suddenly stopped, that, within a few months, the rise of prices also stopped to start up again in obedience to a fresh importation of gold. Altogether we imported a billion dollars of gold. And that prices rose, as they did more slowly, after we entered the war is explainable by the inflation of bank credit and of paper money, as a consequence of the twenty-two billion dollars of loans.

I believe that almost all economists who have studied this problem are agreed that the correct explanation of the rise of the prices, or



of the continual fall and rise of prices, is and ever has been, in almost all cases, monetary.

People are still expecting prices to fall. But there is little justification, historical or otherwise, for this expectation. If we examine the course of prices at the time of the Napoleonic war, the war of 1812, the Mexican war, the Crimean war, the Civil war, the Franco-Prussian war, the Civil War, the Russo-Japanese war and the World War, we notice that it is not always true that prices immediately fall after a war. The only great instance of a fall is after the Civil War; and there the fall was only in terms of paper. When we translate it into terms of gold, we find that there was no fall. We thus find that the method of war finance is the controlling factor as to the behavior of prices during a war and immediately after. When a war is easily financed, the price level is apt to fall back to the pre-war price level rather promptly, but when a war is costly, it is always to some extent inevitably financed in part by inflation or an increase of money without any corresponding increase of the things to be purchased with money. Now this last war, the most costly war of all history, has, as was inevitable, produced inflation all over the world, the reduction of which will require generations. In a word, the key to the diagnosis of the present high cost of living is our policy of war finance,—the fact that colossal war debts have been pulverized into circulating medium.

The simplest and crassest method of converting war debts into circulating medium is to run a printing press and pay your soldiers and other creditors of the government during the war in this irredeemable paper money. That was done in our Revolution, and the remembrance of the Continental paper money, because of its depreciation, still persists faintly in the phrase, "not worth a Continental." We have irredeemable paper money again in the greenbacks of the Civil War, in the French revolution, and during the Great War in Russia, both before and during the Bolshevik regime. The Bolsheviks themselves issued in paper money eighty billions of dollars.

But paper money inflation is only one of several kinds of inflation.

There are in particular two other kinds of inflation that this war has exemplified. One is gold inflation experienced by all neutral countries as the consequence of the paper inflation among the belligerent countries, for under "Gresham's law," gold leaves, when displaced by paper as in Russia and Germany and Austria, and to a large extent, even in Italy, France and England. Gold was washed up on our shore to the tune of a billion dollars, and similar floods struck Holland, Sweden, Spain and the other neutral countries. As Mr. Miller of the Federal Reserve Board has well said, "inflation is no less inflation when gilded with gold." You can have gold inflation just as easily as paper inflation, for by inflation I mean such an expansion of currency as outstrips the needs of business, and therefore has as

a consequence a rise in prices. Such inflation of the gold base of our monetary structure is too apt to be disregarded. The banker is prone to look at the increase of available reserves as an advantage rather than otherwise. And it is so far as the maintenance of redemption is concerned but it is just as evil as any other kind of inflation in its effects on the purchasing power of the dollar and the cost of living.

The second form of inflation is credit inflation, a new and subtle form of inflation, which comes about when those zealous to help the government by lending it money and not able, immediately at least, to do so out of savings, borrow what they lend. In Germany this was specifically countenanced if not encouraged, and the bonds of any German issue were deposited as collateral security with banks that were specifically authorized to issue paper money to those who deposited them. And this paper money, based on these bonds, was in turn lent to the German government for its next loan. It was simply a case of "chasing the devil around a stump" and producing substantially the same effect in the end and as though the government issued paper money directly to pay its expenses. We did very much the same thing here where we deposited our liberty loans as security and borrowed to lend to our government. The first time I talked to an audience asking for subscriptions to a liberty loan, I was followed by a clergyman who exhorted his hearers thus to borrow in order to lend. He said, "it is no trouble at all, this subscription to the liberty loan. All you have to do is to go to the bank and say you want to lend the government so much and the bank will lend you that much, and then they will take as security the bond that you get from the government for your loan. You don't need to make any sacrifice at all. It's like perpetual motion!" Of course, that is an attempt to make something out of nothing. It makes nominal purchasing power, but does not produce the goods which are to be purchased.

On the whole, the money in circulation in the United States rose from three and one-third billions in 1913 to five and a half billions in 1918, and bank deposits from thirteen to twenty-five billions, both approximately corresponding to the rise in prices.

Taking a world-wide view, the money in circulation in the world outside of Russia increased during the war from fifteen billions to forty-five billions and the bank deposits, in fifteen principal countries, from twenty-seven billions to seventy-five billions. That is, both money and deposits have trebled; and prices, on the average, have perhaps trebled also.

The increase of over thirty billions in the money of the world (outside of Russia) is, as Mr. O. P. Austin, Statistician of the National City Bank, says, "*more in its face value, than all the gold and all the silver turned out by all the mines of all the world in 427 years since the discovery of America.*"

So, in answer to our second question, we may ascribe the rise of prices during this war, and, in fact, the changing price level before this war throughout recorded history, to the changing in the supply of money and of deposits subject to check.

We come now to the third question, "What of it?" If it is true that things cost twice as much today because we have twice as much money, and if everybody receives twice the salary, twice the wages, twice the income, that he had before the war, it is, apparently, merely a nominal bookkeeping change and no evil can result.

And this would be so if it were true that every individual of us did have his proportionate share of this increased income. The unfortunate thing is that when we have raised the price level, we find the world's business enmeshed in a vast web of previously made contracts and understandings all expressed in terms of *money*. These contracts and understandings cannot suddenly be adjusted to the changed price level. Some people therefore get more, some less, than their share, and *vast social injustice* is the consequence. The evil of the high cost of living is not impoverishment. The world—or at any rate, America—has not grown poorer (and before the war we could say the world was not growing poorer). But there has been a disastrous and unjust change in the distribution of wealth due to this dislocation of contracts in dollars, sovereigns, francs, etc.

Let us take, as an example, savings bank depositors. Take the servant girl who put a hundred dollars in the savings bank in 1896. At the time we entered the war, if she had taken out her savings, she should have about \$200. As she goes to the teller's window to get this money, she congratulates herself on her savings; but when she turns around and tries to spend that \$200, she finds that she cannot buy with it any more than she could have bought with the original \$100 in 1896. She has been robbed of all her interest, not by the savings bank, but by the depreciation of the dollar in terms of which the savings bank is forced to keep her account.

Take again a bondholder, a widow, who was left by her husband, when he died, a hundred thousand dollars in gilt-edged bonds, yielding \$4,000 a year. She has been spending that \$4,000 a year during all these years and yet she has not been having any real income; she has been eating up her principal, for her principal today, while nominally still the same as it was, a hundred thousand dollars, has only half of the purchasing power as before the war, and a third of the purchasing power in 1896. In other words, two-thirds of her principal (if she got this in 1896) has been used up. She is like "Alice in Wonderland"—she has to run as fast as she can to stand still! When we come to think of it we realize that no one could have made a fortune from bonds or lending money at interest since 1896. Russell Sage, Hetty Green and those money lenders who got rich by lending

money, got rich before 1896. Anyone who tried by merely lending money at low rates of interest to get rich between 1896 and today would have had his labor for his pains.

When prices were falling the opposite was true. Between the Civil War and 1896, the bondholder was "sucking the life out of business," as it was then said, and the stockholders, the independent producers, the farmers, were losing. The farms were saddled with mortgages, the weight of which was growing more and more intolerable, while the price of wheat went down and down. Many people, including thousands of farmers and small independent merchants, were ruined who tried to live on profits. We did not hear then about profiteers, but we heard a lot about "bloated bondholders."

The great untutored public, though they do not understand, when they complain first of bloated bondholders and then of profiteers, show, by using these opprobrious epithets, a peculiar sense of what is in each case actually going on. And yet it isn't the fault in either case, of the respective bondholder or profit taker. Neither is intentionally trying to take advantage any more than usual. It is merely the fact that the dollar, the instrument of reckoning, is so shifted as to throw money into the pockets of one set of people at one time and into the pockets of another set at another time. Probably from 1896 to the present, something like one hundred billion dollars worth of property has been shifted from the creditor or bondholder class to the debtor or stockholder type.

But while temporarily during falling prices, as before 1896, the bondholder may gain at the expense of the business enterpriser, yet the final result is bankruptcy, foreclosure, and control by the bondholder, who ordinarily is unfitted for running business and ought to remain a silent partner. The business becomes mismanaged when it changes hands until even the bondholders lose in the end. And again when prices are rising, the profit-taker, while primarily the gainer, is soon the target of so much dissatisfaction and subject to so much sabotage, class war and strikes that in the end he too loses what he at first received. In the end no one gains except a few speculators by having the dollar change its purchasing power.

So the answer to our third question, "What of it?" is furnished. Lord D'Abernon said on the subject in the House of Lords recently that he believed 80% of the industrial discontent of the world today is due to the depreciation of the monetary standard, and I believe he does not understate the case. While we are trying to understand Bolshevism and I. W. W.-ism, this great accession to class hatred and class war, let us realize that its inception chiefly is due to the change in the monetary standards. It is because the wage earner is one of the contracting parties, whose contract calls for a fixed payment in dollars, the readjustment of which is never prompt enough to over-

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take the high cost of living. We see the advertised statements that people in the wage earning classes are getting \$50.00 a day, and some of them are; but those are the exceptions and the more exceptional those cases, the more widely advertised they are. Consequently the public, even the intelligent public, often the educated banker, has the impression that labor, *as a whole*, has gained from this war. If we look at the statistics of the average wages published by the United States Bureau of Labor Statistics we find no such thing. On the contrary, we find that whereas between 1913 and 1918 the cost of living had gone up 65%, wages on the average had gone up only 30%. In other words, the purchasing power of the wages of the average earner in this country had gone down 20%, he was getting, when the war ceased, only 80% as much as he was getting before the war, and he was getting before the war even less than he was getting 10 years before that. What statistics we have for 1919 show that wages are now tending to overtake prices.

The progressive impoverishment of the wage earner through the lagging of wages behind the cost of living is the master key to this present discontent. It is a serious evil to thrust millions of human beings below the poverty line and they resent it. They are ready to make a scapegoat out of the profiteer or the speculator or the banker, or anybody that may be responsible for their misery. That their misery can be due to an inanimate object, the dollar, seems incredible, especially that the misery could be due to the existence of too much money.

The only objection that I ever found, really and substantially, to stabilising the dollar is its apparent radicalism; and the all-sufficient answer to that objection is that to stabilize the dollar will afford the greatest safe-guard—I would almost say the only safe-guard—against the real and dangerous radicalism with which we are threatened throughout the world today.

We should realize that a period of falling prices produces its own type of discontent and radicalism, for we remember the great fall of prices prior to 1896 resulted in the Bryan campaign, an attempt at a remedy which would have been worse than the disease. The remedy was very popular with the debtor classes, because they realized they had suffered grievously. The propaganda of radicalism then sweeping this country was called Populism. Recently a man went to Kansas and said he could not find a Populist. Why? There was too much money in Kansas. In other words the economic condition which underlay Populism was the condition of falling prices, or appreciating money. Radicalism died out a few years after the fall of prices stopped; and I venture to predict, if we stabilize the dollar, that gradually and within a few years after the stoppage of the rise of

prices, you will find a material disappearance of this restlessness and radicalism which is puzzling the world so much today.

Coming now to the fourth question, "Can we stabilize the dollar?" I will have to refer those who wish a complete statement to my book for all the details and for answers to the objections which, I am sure will come to the mind of any banker when the outline of the plan is suggested. Briefly the outline is this: We now have a dollar constant in weight, the basis of which is 25.8 grains of standard gold (or 23.22 grains of pure gold). This means that the gold miner, or importer, when he gets one dollar of gold certificates for every 23.22 grains of pure gold is really buying or selling gold for \$20.67 an ounce. In short and roughly: fixity of the price of gold at about \$20.00 an ounce, simply means that the dollar is about a twentieth of an ounce. If a dollar, instead of being 25.8 grains of gold, were, let us say, a dozen eggs, obviously the price of eggs would always be a dollar a dozen simply because a dollar is a dozen eggs. If the hens did not lay, the price of eggs would not rise (or vary at all), but, instead, the prices of other commodities in terms of eggs would fall; while if eggs were a drug on the market, their price would not fall (or vary at all), but the prices of other commodities, in terms of eggs, would rise—and the mystified public would then be inquiring gravely, "Why this high cost of living?" The world's prices would then be at the mercy of hens just as now they are at the mercy of mines and banks.

What would we think if a yardstick were defined as any stick that weighed a pound? We would realize at once that many a stick weighing a pound would not measure a yard. In the same way we can never get a standard of purchasing power by merely taking a standard of weight. But since the dollar is fixed in weight it is therefore necessarily changing in purchasing power. What we want is a dollar fixed in purchasing power and therefore changing in weight. At present, no matter what influx of gold takes place or how much the value (i. e., purchasing power) of gold is lessened by the increase of its paper and credit substitutes, it must bear the same nominal price. In other words, fluctuations in the price of gold cannot show themselves in the altered price of gold. They are, therefore, reflected in the prices of other things. Instead of always having that fixed price of \$20.67 an ounce, for which the government must, under our present laws, buy and sell gold, irrespective of what it is worth, let us change that price from time to time. When gold depreciates let us mark it down; when gold appreciates, mark it up. In other words, let us *vary the weight of the dollar*, adding to it when the index number of prices is too high and taking from it when the index number of prices is too low. Obviously Mexico, which has a dollar weighing one-half of ours, has a price level about double ours. Whatever your theory of money may be, no one can deny that, by regulating the weight of the dollar, we can absolutely control the price level.

But, the question is how are we going to do it? Are we going to recoin all the time? Or must we carry coins of different weights? As a matter of fact, we don't use gold coin today to any great extent. We could get along very well by using gold certificates exclusively, leaving all the actual gold in the vaults of the United States, and the United States could have this physical gold in standard bars. The essence of the gold standard is not the coin, it is the inflow and the outflow of gold. As long as we allow gold to be sold for yellow backs and yellow backs to be redeemed in gold, we have a gold standard, and the proposal which I and other economists are making is not to abandon the gold standard, but to "put the standard into the gold standard," retaining exactly the same process but altering the terms of this deposit and redemption in order that the price level shall be maintained. We must conceive simply of our gold standard as a lake of gold in our treasury vault, a lake fed by the free deposit or coinage from the miner and importer and drained by the different exporters and jewelers.

We want our monetary unit to be constant in its purchasing power over goods in general, i. e., to be equivalent to a certain constant aggregate of commodities.

The index number indicates the purchasing power of gold over commodities. If we take the present price level as our standard, we may find that, next month, the price level has gone up 1%. In other words, the dollar has depreciated so that it takes \$1.01 to buy what a dollar used to buy. We can restore this lost purchasing power by adding 1% to the weight of the dollar. If the one percent increase of the price level is not remedied by this one percent adjustment in the weight of the dollar, then at the next adjustment, we readjust it by adding another one per cent. As long as that price level remains one per cent above par, we can add in one per cent every month until our loaded dollar becomes an ounce, a pound, or a ton if necessary! I venture to believe that before the dollar came to weigh a ton, it would buy a little more than it does today!

In this way any change in the price level would always be in process of being corrected, the gold bullion dollar would always be approximated to a constant purchasing power, i. e., a constant price level, the circulating dollar certificates, being redeemable, would be kept equal in purchasing power to this amount of gold, and finally the credit structure (assuming a sound banking system) would also be kept from fluctuating by its relation to this stabilized dollar. In other words, the *purchasing power* of the gold certificates would be kept constant in terms of goods while the *weight* of the gold dollar would be made to fluctuate instead.

So much for the bare outline of the plan.

Several questions in regard to its application will probably come to the mind of bankers.

In the first place, at what price level do we want to start a stable dollar? This should be decided by a judicial commission who should investigate the volume of contracts affected and the tendency of prices at the time of inaugurating the plan, so as to prevent further injustice, as far as is humanly possible, to the parties to *existing* contracts. Personally I should, so far as I can now see, favor a level below, but only slightly below our present one.

In the second place, if the gold dollar certificates outstanding are now equivalent, dollar for dollar, to the gold in the Treasury, but next month, because of a change in weight of the dollar, they call for one percent more gold, must the Treasury find the additional bullion and if so how? It would, of course, be perfectly possible (though not necessary) to maintain, as at present, a 100 per cent reserve against these certificates, the government making up the deficit when gold depreciated, perhaps through taxation. If, on the other hand, gold were appreciating, the government would reap a profit. This gain and loss are not new phenomena resulting from stabilizing the dollar. They exist today. But, under our present system, the loss or gain falls on the individual holder of gold certificates instead of on the government. Stabilizing the dollar simply affords a specific measure of this loss or gain, and maintaining the reserve translates that loss or gain into an increase or decrease of taxes.

It would be more simple, however, to allow the reserve, should it tend to fall below par, to do so up to, say, 50 per cent, before replenishing the supply of bullion. Any surplus above this 50 per cent which might exist at a time of falling prices or decreasing dollar weight could be put to work to earn interest which would to a large extent provide against loss when prices tended to rise again. This could be done by investing this "surplus" in government bonds.

As to the bankers' reserves, these would all be kept not in gold but in gold *certificates* redeemable at the sub-treasuries in gold bullion of whatever weight of gold per dollar should be declared at any time. Thus the banker would not be concerned with fluctuations in the price of gold, the Government assuming this responsibility—as it should under our constitution—to "regulate the value of money."

With the League of Nations organized, it may be possible to secure international adoption of the plan at the outset. As to the question of the adoption of the plan by this country alone, now is our golden opportunity to take the lead for stabilization. International pacts of exchange have been shattered by the war. If we, with our present financial supremacy, would inaugurate the stabilization plan, we could presumably count on other nations soon falling into line. The benefits of stabilization would be too obvious to be missed.

Even if we had to "go it alone" for a while, the benefits of the system would far outweigh the drawback of a shifting rate of exchange.



Our domestic commerce is of much greater importance than our foreign commerce.

Other questions are discussed in my forthcoming book "Stabilizing the Dollar in Purchasing Power."

This plan with many details which I cannot now take up has run the gauntlet, for years, of the economists of this country, who have finally been won over to it. A committee of the American Economic Association consisting of the men who have given much of their lives to the study of money and banking, have endorsed this plan in principle. A number of important business men, like John Hays Hammond, the mining engineer, and John V. Farwell, of Chicago, have done the same. So have Senator Owen, one of the authors of the Owen-Glass bill establishing Federal Reserve, John Perrin, Federal Reserve Agent of the Pacific Coast and George Foster Peabody, Director of the Federal Reserve Bank of New York. A bill has been introduced in Congress, for the appointment of a monetary commission to study the whole problem "especially to the end that the purchasing power of the dollar may be stabilized." The proposition to stabilize money is simply a reapplication of that clause in our Constitution which gives the United States Government the power to regulate the value of money.

Twenty-three of the leading bankers of the country have expressed a favorable opinion of the plan. Ten of these are bank presidents. But this is the first time that we economists, who have been working on the plan for some years, have submitted it for the consideration of the bankers of the country.

The banker is primarily a conservative man, but it is just the conservative man who wants to avoid the radicalism with which the world is threatened today.

If bankers can take an interest in the great problem of stabilizing the price level and thereby reducing the discontent that comes from the high cost of living the problem will, I predict, be solved.

If bankers will make a study of this and reach the same conclusion that practically all those who have studied it have so far reached, namely that it is a sound and practicable and conservative plan, they will be rendering a service which we academic economists can of ourselves never render.

They can do for our dollar exactly what commerce has done for every other unit it uses,—the pound, the kilowatt, the yard,—make it a standard of purchasing power and thereby solve these problems so far as they can be solved in that particular manner.

This proposed solution is to be contrasted with price-fixing, which is almost the only other sort of solution that is offered. The forcible control of prices has never succeeded, even in Germany, and I predict never will succeed to any appreciable extent. So far, in spite of the

appeal of the President and the great work of the attorney general, there has been no substantial reduction of the price level in consequence of this mode of attack.

When we tried to solve the problem of daylight saving so necessary during the war, we did not use the strong-arm method. We did not try to compel everyone to get up an hour earlier and get breakfast an hour earlier and did not have policemen go around and see that they did it. We knew that that plan would never work. What we did do was to change the instrument of reckoning, the clock, and then voluntarily we all got up one hour earlier and went to breakfast one hour earlier. And just as simply, instead of using policemen and clubs to enforce the regulation of individual prices, we could merely change the instrument of reckoning, the dollar, in terms of which we measure the prices. We would thus automatically control and stabilize the price level or the purchasing power of the dollar, while the individual prices would be still left free to change according to supply and demand. Such a solution requires no price fixing except of the price of gold which we have always fixed. The only change would be that we would fix and readjust that price scientifically instead of fixing it arbitrarily once for all. (Applause.)

MR. WATTS: While we have enjoyed very much the address to which we have just been listening, I fancy that it is a little advanced for the banker. But on account of the great importance of the subject and the eminent source from which it springs, I move that this convention refer the whole subject to the Executive Council for further consideration.

(Seconded and carried.)

General Secretary Farnsworth read the following telegrams:

From Joseph Hirsch, Chairman Agricultural Commission, Corpus Christi, Texas:

"I am deeply appreciative of expressions of sympathy from Executive Council. It lightens our troubles to know that friends are thinking of us sincerely and we are grateful."

From Albert S. Adams, President International Association of Rotary Clubs:

"The International Association of Rotary Clubs sends its friendly greetings and wishes for you a most successful meeting. Rotary stands for more production and less destruction and a fair day's pay for a full day's work. Rotary is opposed with all its influence to those forces that would tear down and

destroy the things that the real men of this country have so freely given of their heart and brain to build up. Rotary will gladly cooperate with your great organization in any constructive programs. Rotarians are optimists who do not just sit down and bemoan conditions but who get out and improve them."

**PRESIDENT MADDOX:** A very important report will be read. It is short, but I want you to hear it because it is the first report made by this committee which was created by you at your last convention. The Chairman of that committee, I am sorry to say has left the city, but he has given the committee a great deal of hard work during the year. It is the Committee on Commerce and Marine, and Mr. Watts has kindly consented, as a member of that committee, to read the report.

**MR. WATTS:** I may say in advance, in the absence of the chairman, that the credit for the work of that committee is due to the chairman, Mr. McHugh, and the Secretary, Mr. Collins.

## REPORT OF COMMERCE AND MARINE COMMITTEE

JOHN MCHUGH, CHAIRMAN

Your Committee on Commerce and Marine reports definite progress and increasing opportunities for constructive work along the lines of activity marked out in the authorization given by the Association at its annual convention in Chicago, in September, 1918.

That authorization was in the form of a resolution, adopted by the Association, together with subsequent action directly following vesting in the President of the Association the power of naming the Committee. The resolution was "That the American Bankers Association, in convention assembled, pledges itself to support by every means in its power the development of export trade, to encourage manufacturers to enter upon this field of distribution, and to provide, as rapidly as possible, adequate facilities for financing export operations sufficient to meet every reasonable demand that may arise." The authorization, pursuant to the adoption of the resolution, for the appointment of a special Committee by the President, which Committee should include the President, stated that the Committee should be known as the Commerce and Marine Committee, and that it should

"study this important question and bring it before the Association."

As noted in the report of the Committee, made to the Executive Council of the Association at White Sulphur Springs, W. Va., May 21, 1919, and unanimously adopted by the Executive Council, a copy of which report is appended as an integral part of this report, the Committee on Commerce and Marine, comprising fifteen bankers representative of all sections of the country, was called together for organization by the President of the Association, in New York City, January 21, 1919. The Committee's work soon took active shape, was fully covered, up to May 21, in the report of the Executive Council just referred to.

It was the judgment of the Committee at an early date that its most important function, under the circumstances, and one in strict accordance with the spirit of the resolution which called it into existence, was in the direction of focussing attention on the creation of American credits abroad. These credits, it was and is believed by the Committee, constitute an essential basis for the maintenance and extension of our foreign trade, and it was and is held by the Committee as evident that this basis can be secured, to a markedly important if not wholly necessary degree, by wisely-made American investment in high-class foreign securities, not only government issues, but also municipal and industrial, if properly guaranteed.

There has been and continues to be much discussion in general as to methods to be adopted to bring such securities in effective volume, and surrounded by necessary safeguards to ensure their ultimate payment, before the American investing public. Legislation is pending, having the same object in view. Credits aggregating a few hundreds of millions of dollars have been extended by several banking institutions to meet pressing needs. Altogether, however, no well-organized effort has yet been made, and your Committee, therefore, believes it timely to say that it is confidently of the opinion that the necessary financial machinery in the form of a large, capably managed and thoroughly equipped organization, with which the bankers, business men and manufacturers of this country would become identified, and which might very properly be initiated and supported by the members of the American Bankers Association, should be provided with the least possible delay. Such an organization should have ample capital and be sufficiently resourceful to extend credits running into the largest figures that can be required for the purchase of American products, and its efforts should most certainly be supplemented by the maximum of production here, in order not only that our own people be kept well and profitably employed, but that they be not subjected to the payment of excessive prices for their own needs. If such financial machinery were provided and had the support of the members of the Association, there could be no question of its success, and its success

would find reflection in prosperous conditions in every section of the country.

Such an organization might confine itself to investment in securities of merchants, manufacturers and others of foreign countries when guaranteed by their bankers and their governments, and our own Government should indicate its willingness to lend its friendly offices to such an organization in its negotiations and in the collection of such foreign obligations if need be.

Your Committee believes that the so-called Edge Bill, S. 2472, affords a basis for organization in connection with the financing of export and import trade, and that such organization would not be in restraint of trade, but would promote it under careful governmental supervision and with such support as the Government might consistently and effectively extend; and, therefore, earnestly recommends this view to the Association, to the end of prompt and effective action by the Association. The foreign trade financing contemplated under the Edge Bill must, of course, be carefully safeguarded, to the protection of the industrial, commercial, agricultural, labor, financial and other interests of the United States.

It was the Committee's opinion, as far back as last April, that high-grade foreign securities, or debentures issued against them by responsible and thoroughly well-informed companies, with ample capital and officered by men having the confidence of the public both as to ability and integrity of purpose should be absorbed by American investors in increasing volume, and that to bring this about would require carefully planned and consistently directed efforts.

It was in pursuance of recognition of the wisdom of establishing some such basis for the extension of American credits abroad that the Committee sent out on May 3, with a circular letter to the membership of the Association, a reprint by the Committee of the address, "America's Equipment for Foreign Trade," delivered by Fred I. Kent, Vice-President of the Bankers Trust Company, New York City, at the Sixth National Foreign Trade Convention held in Chicago the latter part of the preceding month. The Chairman of your Committee expressed at that time the Committee's belief that Mr. Kent's analysis and recommendations, particularly with regard to the necessity of the absorption by American investors of high-class foreign securities, should be given the most careful consideration by members of the Association.

There was wide-spread interest in the reprint, and requests for additional copies were received, and still are being received, from various parts of the country. On August 16, the Chairman, with the approval of the Committee, sent out to the membership of the Association a circular letter asking expressions of opinion, for the benefit and guidance of the Committee on Commerce and Marine, on legislation dealing in general with foreign trade. In this connection,

special attention was directed to the so-called Edge Bill, S. 2472, not with the idea of endorsing that or any measure then before Congress, but to develop constructive criticism of important proposals in the field of legislation under consideration. This was followed by a reprint by the Committee of the Edge Bill as passed by the Senate. In the circular letter reference was made to salient features of the Edge Bill, and various points, favorable or debatable relative to that measure were brought up. The replies to this circular letter received from bankers in many parts of the United States, have been distinctly informing and helpful, and an analysis of them, so far as recorded, is at the service of the Association. In all this, the Committee on Commerce and Marine has been keeping in close touch with the Association's Committee on Federal Legislation and with the Federal Legislative Council of the Association, putting at the disposal of the Committee on Federal Legislation and the Federal Legislative Council all results developing from the circular letter sent out on August 16.

The letter in question has had a large circulation in addition to the membership of the Association, and the same is true of the printed report of the Committee on Commerce and Marine made to the Executive Council of the Association last May. Many requests from this report have been received, public institutions figuring largely in these requests, and interest has been evinced in it abroad as well as in this country.

Sections of this report of last May dealing with shipping policy and declaring, among other things for the working out of a merchant marine plan involving privately-owned and operated vessels with such assistance as might be necessary to make their operation successful against all competition, were presented to the United States Shipping Board at a conference held in Washington, May 22 and 23 last, these sections having special significance because they had been approved by the Executive Council of the American Bankers Association. It is felt that the Committee has had and is exerting an important influence, as representative of the Association, on the shaping of national policy in this particular. The Committee has had a sub-committee working on a safe and consistent plan of ship financing, in case the Government should decide to dispose of its mercantile shipping on reasonable terms.

Your Committee appreciates the difficulties relative to the working out by Congress of a plan which should give the freest possible activity to private initiative in shipping and, at the same time recognize and take account of the government's investment in shipping. It is, however, the Committee's firm belief that present conditions more than ever demand a speedy determination of shipping policy, and that such policy should, first of all, be based on the fact that private initiative and experience in shipping cannot safely be set aside in

favor of experimentation in untried fields. Under the pressure of war necessity, the United States constructed a vast merchant fleet, and the number of government-built vessels of this type is constantly being augmented. This fleet, properly placed and effectively operated, should be a tremendous factor in the development of our foreign trade. The situation is, that, up to this time, it is not fully so employed, this being due to a variety of causes. There must be worked out at the earliest possible moment a plan providing for the disposal of this fleet to responsible American concerns at prices fairly corresponding to the value of such vessels in the markets of the world, and, in this disposal, well-established shipping firms should have their rightful opportunity to expand their business. Pending such disposal, the mercantile shipping future of the United States requires the chartering of available vessels, at fair terms, to concerns evidently able to operate them to the national advantage. Other countries are rapidly placing their mercantile shipping on a sound commercial basis, and, if the United States lags in this, the effect, seemingly, cannot fail to be disastrous. It also is true that our navigation laws require careful, intelligent and business-like revision in order that foreign competition, which now exists to a marked degree, can be met, due regard, of course, being exercised with respect to proper compensation for the men on American ships and with respect, also, to proper return on American capital invested in shipping.

The Committee, in addition to being fully cognizant of banking and other plans for our foreign trade, has kept itself carefully informed for the benefit of the Association as to developments at Washington and elsewhere relating to the Shipping Board and to shipping matters generally, and has been fully alive to the necessity of keeping itself thoroughly informed also as to the trend of thought and policies of qualified shipping men generally, of exporters and importers, of manufacturers and of agricultural, labor and other interests. It has held before itself the fact that America's foreign trade, both export and import, in proper relative volume, is a prime essential to a satisfactory and prosperous domestic situation, particularly with regard to labor. The Committee has paid attention, which, it is thought, has proved resultful, to the subject of free zones in ports, to the development of Pan-American trade, to the significant development of regional interest in phases of foreign trade and to the question, of special importance to numerous bankers, of increasing, by fair and proper means the security value of ship's mortgages, a point that is of particular meaning in connection with disposal of government merchant marine holdings to private interests. Your Committee has been carefully following the progress of legislation to this end, voicing opinions which, it is believed, have been of assistance in the framing of constructive enactments.

The Committee months ago recognized the wisdom, if not the actual necessity of correlating its efforts, especially in respect to the extension of American credits abroad, with those of committees of other organizations working along lines more or less similar. This ideal of concerted effort, wherever feasible and advisable, has been one of the guides to the Committee, primarily, of course, for the attainment of results, and secondarily, though scarcely less importantly in a sense, for the avoidance of duplicated activities. Something has been done in this field of coordination, but much remains to be done. Concerning co-operation, the Committee has particularly appreciated the advisability of enlisting the interest and aid of State Bankers Associations in its work, and evidences of coordinated effort on the part of certain State Associations has been especially welcome and valuable.

The Committee has established informative relations with important manufacturing and trade associations and commercial bodies throughout the country, many matters referred to have received prompt, and, it is hoped, adequate attention, and a very large amount of correspondence, between the Committee and individual members of the Association has been handled.

It is the Committee's considered belief that as an active and productive branch of the Association, its functions, if the work thus begun is to be continued and amplified, will be even more important the coming year than has been the case in the one just ending. It would seem to be without question that the interests of the Association, especially at this time of rapid national and international developments, can be served effectively by continuance of the Committee's work adequately financed, taking up the work at the present stage and broadening and emphasizing it in accordance with the Association's desires. It is just as unquestionable that, for desired results there must be brought to that work constructive ability and earnest effort. It is apparent that special dignity and influence would be given the successor to the present Committee, if it were constituted a permanent Commission or Committee of the Association—permanent, that is, in its machinery of organization—and were given reinforced authorization to do these things: First, to keep in close touch with all developments in connection with our foreign trade, particularly those developments directly associated with finance; Second, to do all that it can to keep the bankers of the country informed as to these developments, and, Third, to encourage by all proper means, through and for the American Bankers Association, the favorable consideration of such plans as in its judgment may prove worthy.

**PRESIDENT MADDOX:** The report of the Committee on Commerce and Marine will be received and filed. The next on



the program will be the report of the Committee on Nominations. Mr. Head.

MR. W. W. HEAD (reading): Your Nominating Committee begs to report the following nominees unanimously chosen by the committee to be submitted to the Convention of the American Bankers Association, as officers for the ensuing year, 1919-1920:

For President: Mr. Richard S. Hawes, vice-president First National Bank in St. Louis, St. Louis, Mo. (Applause.)

For First Vice-President: Mr. John S. Drum, president Savings Union Bank & Trust Company, San Francisco, Cal. (Applause.)

For Second Vice-President: Mr. Thomas B. McAdams, vice-president Merchants National Bank, Richmond, Va. (Applause.)

By order of the Nominating Committee.

WALTER W. HEAD, Chairman.

JAS. B. LAMBERTSON, Secretary.

The meeting then adjourned.

## AFTERNOON SESSION

The meeting was called to order at 3:00 p. m., by President Maddox.

PRESIDENT MADDOX: At the first session the question of the resolution presented by Mr. Robert D. Kent, president of the Merchants Bank of Passaic, N. J., was postponed until a later meeting. The resolution was on the subject of the collection of checks. It is a very important subject and a big subject, and Mr. Kent thought it would probably not be wise at this time to discuss it before the convention, and I have a letter from him suggesting that the resolution be referred to the Executive Council for their consideration. The resolution is to be found on page 27 of the official program. I presume most of you gentlemen are familiar with it, and with your consent I will refer it again to the Executive Council.

(No objection was made and the resolution was so disposed of.)

**PRESIDENT MADDOX:** I have just received information that a charter has been issued to what I understand to be the first women's bank in the United States. I am advised that a bank in Clarkston, Tenn., has been organized; all of the officers and all of the employees are to be ladies and the bank will very soon open for business; and I am sure you are very glad indeed to welcome the ladies in our fraternity, and we hope they will make a success of the first women's bank which will be operated entirely by women stockholders, officers and directors, and employees. (Applause.)

We will now have the report of the Committee of Seven, Mr. William George, Chairman.

## REPORT OF COMMITTEE OF SEVEN

### WILLIAM GEORGE, CHAIRMAN

Since the appointment of the Committee of Seven one year ago, some considerable work has been done along the line of gathering further data and facts relative to this important proposition and combining it with the statistics gathered by the predecessor of this committee. Our duty has apparently been to develop some plan whereby greater economy and more perfect cooperation and co-ordination of the forty-nine state bankers' associations and the American Bankers Association, one with another, could be accomplished. The original committee appointed by this Association consisted of the secretaries of each of the forty-nine state associations. Several meetings were held and the matters involved were quite thoroughly discussed. A report was made a year ago, which was accepted, and the committee discharged and a new Committee of Seven appointed to carry on the work. It may be well to call the members' attention to a few facts.

The American Bankers Association's annual expenses are about \$400,000 and the forty-nine state associations expend about \$450,000, a total paid out annually for member banks of about \$850,000. There are in the United States approximately 30,000 banks, of which a little over 20,000 are members of the American Bankers Association, and the remainder, or approximately 10,000, are not members of the American Bankers Association, but are mostly members of some state association. It is gratifying to note that largely through the coordi-

nated activities of the state secretaries much helpful work to the members of the various state associations is being accomplished. Especially is this to be noted in their protective work. What is being done by them to prevent duplicated effort in this line will, no doubt, be extended to other and greater activities and eventually will result in considerable saving to member banks. It is only fair to state here that banks are rapidly appreciating the good derived from this state association cooperative work.

A most important feature that lacks a perfect relationship between the various State Associations and the American Bankers Association, is that of the apprehension of criminals. Of course, it is difficult to develop a proper plan of cooperation between state associations and the American Bankers Association, so long as there are two classes of banks, namely, one a class of member banks and the other of non-member banks, the former protected and the other not protected by American Bankers Association service. There is much confusion of systems adopted by various bank associations in regard to apprehension of criminals, paying of rewards, etc. A great majority of the banks are members of both a state and the American Bankers Association. Bankers are paying \$850,000 for membership and expect service. The question is: are they getting value received. It is our opinion that an ideal condition might be developed could the payment of one membership fee entitle the member to all the protection and all the privileges of both the state and American Bankers Associations, thus giving also greater influence for good in all Federal and legislative matters. In general we deem it a part of our duty to develop a bank association system of greater economy and of greater usefulness, a system that will more effectively guard the passing of laws by the legislatures in the various states, and by the Congress of the United States, a system that will effectively handle all protective questions in whatever state they may arise, a system that will work like one great coordinated business, when results will be for the good of each bank without duplication of effort and without unnecessary loss of time or unreasonable expenditure of money.

Recognising some nine years ago the need of cooperation between the American Bankers Association and the state associations, the Organization of State Secretaries was embodied as a section of the American Bankers Association. We believe that the results have been most beneficial and can be greatly augmented by bringing the presidents of the state association into direct contact with the administration of the American Bankers Association. It is, therefore, the sense and judgment of your committee that the next step in bringing about a closer coordination of the work and efforts of the American Bankers Association and the forty-nine state associations would be by enlarging the Executive Council of the American Bankers

Association by adding to its membership the president of each state association as an ex-officio member of the council; and this committee unanimously recommends that this suggestion be embodied in an amendment to the constitution and by-laws of the American Bankers Association, to be presented for action at the convention in 1920.

I wish to add what I was directed to add by the Committee, viz.: That it is their opinion that where such an amendment is proposed there shall be coupled with it a provision that the expense of having such presidents attend the Spring meeting of the Executive Council should not be a burden upon the American Bankers Association, but should be borne by the states from which they come.

In conclusion, your committee respectfully submits its report and asks that it be accepted and the committee continued.

MR. F. M. LAW, (Texas): Mr. Chairman, I believe the report of Chairman George is one of the most important documents that this convention will listen to. There were a great many things in that paper that we will all, I believe, shortly subscribe to, but I believe that I can detect some things that are open to serious question. There is a sentence, which perhaps I cannot quote verbatim in that report that reads something like this, that it might be possible to arrange an ideal condition under which the payment of one set of dues would be sufficient, and entitle a member bank to membership in the state association, and also to membership in the American Bankers Association. Mr. Chairman, I believe that it is in order to sound a note of warning against this. I believe that would be a most dangerous, as well as a most unwise thing to do. I believe that there is an impression that is more or less prevalent among the delegates to this convention, that some members at least of that Committee of Seven would favor, openly, a merger between the American Bankers Association and the various state associations. I want to say to you, as a member from the state of Texas, that would be a most unpopular proposition in my state.

Another recommendation in that document was to the effect that the various presidents of the state associations be made ex-officio members of the Executive Council. I have the honor to be president of the Texas Bankers Association. Every banker in this country believes that membership in the

Executive Council of the American Bankers Association is an honor to be coveted, but I believe that that would be a mistake. I believe the Executive Council is already too large, if anything. They tell me anyway that most of the men on that Executive Council do not have very much to say about what goes on; that the affairs are handled not perhaps in just as popular and in as democratic a way as some of us would like to know that they are handled. We would like to see the American Bankers Association a democratic organization. I, for one, and my colleagues from Texas, feel a great appreciation and an affection for the American Bankers Association, but I want to say to you, sir, if the continuance of this committee can be taken to mean directly or indirectly that we are in favor of a merger between the American Bankers Association and the state associations, I am not in favor of continuing the committee. I would be in favor of receiving the report and filing it and discontinuing the committee.

I believe in cooperation between the American Bankers Association and the various state associations. I believe in coordination; I believe in elimination of any unnecessary effort and work; I believe in economical administration; I believe a medium exists by which all of those things can be easily accomplished. I refer to the organization known as the State Secretaries Association. The State Secretaries Association has the secretary of each one of these forty-nine state associations sitting around the table. I had the pleasure yesterday of attending one of their sessions, and I believe through that medium we could get in close and personal and immediate contact with the various state associations. I believe, Mr. Chairman, if the impression could be allowed to get out that we are beginning, in a way, to take over some of the prerogatives of the state associations, and merge them into this American Bankers Association, that instead of popularizing and making friends for ourselves in the various states, the very direct opposite would be in evidence. And so, sir, based on remarks that I have made that for the rea-

sons therein given—first, that we already have close and cordial cooperation and coordination between the various state organizations and the American Bankers Association and, second, because an organization already exists through which this cooperation and coordination can be operated and made even closer, namely the State Secretaries Section—I make a motion, Mr. Chairman, that the report of the Committee of Seven be received and filed and that the committee be discharged.

(The motion was seconded.)

MR. PHILLIPS (Illinois): I agree with a good many things the gentleman has just said; I do not believe that we ought to have one great organization, but I do not think it is the purpose of the committee to work out plans now or any other time that would amalgamate the state associations with the great American Bankers Association. There may be some men who think we should work out a plan of that kind but I don't care to have it proposed. So far as the presidents of the different associations are concerned, it seems to me that it would be of great value to each president of each state of the Union to be in a little closer touch, if possible, with the parent association, and yet be of great value to the state that he represents. I am not president now; I belong to one of the "has-beens"; but I know that it would have been of great value to me at that time, several years ago, to have been in closer touch with this organization, and I would like to offer as a substitute, that this report be accepted and the committee continued.

(The substitute was seconded.)

MR. GEORGE: Of course, the chairman of a committee feels that it is his duty to defend his proposition, and in this instance I think it is more than his duty. If there be a class of men in this institution who are perfectly satisfied with taking \$850,000 a year with no attempt at economy, then I do not think they are thoroughly loyal no matter what state they happen to come from, to the duties that are imposed upon the men that are on the Council, and who fill the

offices. I think that this committee has endeavored to arrive at facts and figures which they did not see fit to bore you with this afternoon, that are conclusive proof that a better scheme of organization for greater coordination and co-operation can be easily accomplished so far as an actual consolidation is concerned, you will note that there is nothing in that report that authorizes or justifies the statement made by the gentleman from Texas. The facts are that the majority of the committee are not in favor of an actual consolidation, but they are in favor of some plan that will reduce these expenses. Already this Association has passed an amendment that increases the dues. Already this question is coming up before you "How will you operate this Association with its present expense," and the same thing is true in some of the state associations.

If the gentleman from Texas had studied the duplication of effort as has Mr. Goebel and some of the other men that composed the committee, and were on the committee last year, I don't think he would have made so eloquent and forceful an argument against the continuance of this investigation; that's all it is. We stand as a sort of monitor committee, a committee that is trying to find out how things can be bettered, how greater efficiency can be accomplished. Personally, I would like to be relieved from serving upon this committee, but I am strongly and enthusiastically in favor of a committee that will go on with this investigation. Take the statistics and see what percentage of the men that support this organization ever come to the meetings. Take it by years, if you will, and I will show you that it is like the clubs of the country, the fellow that supports the club doesn't attend very much; it is a few fellows that get the benefit. Now, those are facts and one of these days, unless you make this more democratic than it is now, some people won't care to pay out their money, especially when you find it necessary, in order to keep up this great organization, to increase their dues.

I don't care to push the ideas of the committee upon this

organization. I believe that the majority of men here are men who, in their own business would be glad to adopt any scheme that would coordinate the activities of their business and developments. The idea of this committee is to develop the Association, to make it broader and better,—not narrower,—and so, gentlemen I believe that it is a good idea to continue the committee.

MR. P. W. GOEBEL (Kansas): I took part in the deliberations of this committee. It is a tremendous plan to undertake to amalgamate the efforts of the various bankers, associations, and the American Bankers Association. The report states that it might be ideal, to have a membership in the state association, also provide a membership in the American Bankers Association, but nobody knows better than the members of that committee that it is not practicable. As I said before, it might be ideal, and in twenty-five years from now, something of that kind may be brought about when we learn more about the methods of cooperation.

As to the continuance of the committee I have no more to say, only I hope if this committee is continued, that there will be a new membership selected by the incoming President.

A MEMBER: As a member of the Executive Council, I do not like to have the member from Texas give this convention the wrong impression regarding the activities of the Council. I am serving my second term on the Council, and I want to say to you frankly that every member has been given freedom of speech and freedom of action in all matters, and I have not yet discovered any one that controls the freedom of the Council.

PRESIDENT MADDOX: The question has been called. I think that under the rules the motion of Mr. Phillips would be out of order as the original motion was to discontinue the committee. But as we are not holding strictly to parliamentary practice, we will vote on the substitute of Mr. Phillips that the report be received and the committee continued. The General Counsel informs me that that means that the same committee is continued.



**GENERAL COUNSEL PATON:** Mr. President, my interpretation is that when a committee is continued, the same membership is continued with it unless the convention authorizes a change in the personnel. If you continue the committee and say nothing about the membership, then the membership of the old committee is continued.

**MR. LAW:** If the convention decides to continue that committee, and I hope that they will not so decide, of course, there will be no objection to continuing the personnel of the committee because I believe you could not get a better. I did not intend to intimate that there was anything wrong with the Executive Council, but I stand here to say, as a friend of the American Bankers Association and with its interest at heart, that in my humble judgment and the judgment of scores of members, this American Bankers Association needs to be more democratic in its administration. There are only about fifty here of our members, but when it gets to be more democratic, out of twenty thousand members I think we may have ten times fifty in attendance at your sessions.

**PRESIDENT MADDOX:** The Chair feels called upon to answer the gentleman. All conventions are controlled by the action of the membership, so in the American Bankers Association every delegate has the right to vote. You gentlemen meet in these annual sessions and have a perfect right to bring into discussion any suggestion for improvement of the management of the Association. Its officers are merely your servants and if at any time the delegates wish to change the system it is entirely in their power. If the conventions are held yearly and no change is recommended, naturally there are no changes made. So I would suggest that if any gentlemen have in mind any changes, we would be glad to have them bring in resolutions looking to the betterment of the Association.

**MR. LAW:** That leads me to believe that some will soon be presented.

(The substitute motion of Mr. Phillips was then put to a vote and carried.)

**PRESIDENT MADDOX:** We will now have, under the head of committees and committee membership, the report of Mr. Hawes.

**MR. HAWES:** I move that the following committees be continued by reappointment by the President:

A Special Committee of Five, a Committee of Cooperation with the United States Section of the International High Commission, the American Trade Acceptance Council, Committee on Cooperation with the United States Chamber of Commerce Regarding Foreign Exchange, a Committee of Commerce and Marine, a Committee on Acceptances.

(Motion adopted.)

**PRESIDENT MADDOX:** The next will be the report of the Agricultural Commission, Mr. Joseph Hirsch, Chairman. You remember Mr. Hirsch lives at Corpus Christi which has suffered so much by the recent storm and was unable to be present; but one of the members of the committee, Mr. Shepherd is here and will read his report.

**MR. SHEPHERD:** Mr. President and Gentlemen: Out of consideration for you and in deference to the distinguished speaker who is about to address you, I am going to ask that you permit this report to be filed at this time without reading.

Allow me, on behalf of the Agricultural Commission, to express to the members of the American Bankers Association and to many banks and bankers in this country that are not but ought to be members of the Association, the appreciation of this commission for the fine spirit of cooperation which you have at all times given us in this work, which we believe to be one of the most important activities of the American Bankers Association.

**Mr. Hirsch**—the indomitable, capable Joe Hirsch—unfortunately could not be here because of a tidal wave which destroyed in some considerable measure the city which has the honor of calling him its citizen. On behalf of the other members of the commission and in acknowledgment of the services of Joe Hirsch I want to say that the work of the commission in the last three years has been in no small part successful by

reason of his excellent and enthusiastic leadership. In 1911 in Minneapolis, when Joseph Chapman opened the first meeting, a joint conference of the chairmen of Agricultural Committees of twenty-three state bankers' associations, he announced what has since that time been in considerable measure the creed of this commission. In order that there may be no misunderstanding of the purpose of this commission I want to repeat in my own words the substance of Mr. Chapman's remarks: "The men here must understand and the people must understand that these committees of state bankers' associations do not hold out any panacea for the agricultural ills of this country, that they are not offering to the people and the farmers anything new and untried, but we believe there is already stored up in the schools, in the universities, in the agricultural colleges, and in the Department of Agriculture at Washington, information that should be disseminated among the people who need it. We must improve agricultural conditions in this country and make the lives of the farmers happier, more prosperous, more attractive and keep the girls and boys out on the farm. This meeting has for its purpose that particular function, to enlist the cooperation of the bankers of America with the schools, the agricultural colleges, universities and the Government." That has been, and is, the purpose of the Agricultural Commission of the American Bankers Association.

Some men have thought that *The Banker-Farmer* was designed to teach the banker how to bank, others have thought it was designed to teach the farmer how to farm, but it was designed for neither of those purposes. It has had and now has for its whole purpose the taking of the best there is of banker-farmer activities in one community and disseminating that information for the benefit of the bankers and the farmers in other communities. That is the purpose of *The Banker-Farmer*.

## REPORT OF THE AGRICULTURAL COMMISSION

JOSEPH HIRSCH, CHAIRMAN

In September, 1918, the report of the Agricultural Commission to the annual convention of the American Bankers Association, closed with these words:

**"Agriculture—War—And After."**

While the first necessity is a maximum production for 1919, as a war measure, the commission at the same time believes that every effort should be made to develop a permanent constructive agricultural program that will take into account the problems of after the war. The nation, which today is for the first time taking a genuine interest in the soil, must not be forgetful when the present crisis ends.

That agriculture may be placed on a permanent, prosperous, contented basis is a necessity for the well-being of the Republic and this will call for the best thought and cooperation of our leaders.

"No class aside from the farmer himself can be as influential and as helpful in placing agriculture and country life on the proper footing as the banker."

This is again submitted as significant that the Commission whose efforts for two years has been concentrated on a maximum production that would supply the food that was needed to sustain the nation and its Allies, was looking ahead to the conclusion of the emergency, when not only the problem of production, but others of equal importance, were to be attacked by the bankers of the country.

### CLOSER RELATIONS WITH U. S. DEPARTMENT OF AGRICULTURE

Closer relations with the U. S. Department of Agriculture had been foreshadowed by a meeting at the convention at Chicago called by the Commission. The Department had dispatched to this meeting its Assistant Secretary, Clarence Ousley, who repeated the assurance that the activity of the American banker for agriculture and country life was more than welcomed by the Department. The sentiment of the Department was crystallized by Secretary Ousley when he said:

"I cannot say too much to impress the fact that the banker who enters actively into the concerns of agriculture in his region can wield a greater influence than any other single man."

In his annual report for 1918 Secretary Houston had said:

"For some time it has been part of the plans of this department to enlist the more complete cooperation of bankers and other business men and of their associations in the effort to make agriculture more profitable and rural communities more healthful and attractive. Recent events have lent emphasis to the appeals and very marked response has been made in every part of the Union."

## CONFERENCE IS PLANNED

That the leaders of the United States Department of Agriculture and the bankers might meet to hear how cooperation might advance the common cause, the Chairman of the Commission announced to the convention that a conference of the two organizations was in prospect.

Upon the signing of the armistice it was clear to every student of agricultural conditions that the nation could never again permit its interest in agriculture to lapse. That the bankers' activities in supporting the farmer had resulted in his achievements in production during the war, was conceded. This was not alone the view of the bankers but it was that of such men as Secretary Ousley who said in the December *Banker-Farmer*, "There is need for maintaining the organization which we have started in war-time in order to make it a permanent asset of rural development and national welfare. Therefore, there is all the more need of the continuance of the fine effort which *The Banker-Farmer* represents."

Previous to the war, of course, and even during the crisis the Commission had constantly urged attention to the problems, such as rural education, farm tenancy and marketing, which must be solved if agriculture is to become safe, permanent, profitable and contented. That there was need of the projected conference with the Department at Washington, even though the war had ended, was certain. Accordingly the Commission went ahead with its plans and on February 26 and 27 the conference was held.

Representatives of thirty-seven state associations and every member of the Commission except one gathered at Washington. The conference was addressed by such men as Secretary of Agriculture Houston, Assistant Secretaries Ousley and Christie, Bradford Knapp, in charge of extension work in the south, C. B. Smith, in charge of extension work in the north and west, J. R. Mohler, Chief of the Bureau of Animal Husbandry, C. H. Brand, Chief of the Bureau of Markets, C. W. Thompson of the Bureau of Markets, Dr. P. P. Claxton, U. S. Commissioner of Education and Judge C. E. Lobdell of the Federal Farm Loan Board, and there were also informal remarks by the delegates.

## DECLARATION OF CONFERENCE

Out of the conference came the following declaration:

"The unique opportunity of the bankers of the United States to be a power for the development of a permanent, prosperous and safe agriculture and a contented country life is conceded by the U. S. Department of Agriculture and the state colleges of agriculture.

"Much has already been accomplished by the bankers in the realization of this opportunity and responsibility, so important to the entire nation. But the surface has only been scratched. By loyal coopera-

tion and intelligent leadership the bankers of the United States can be welded into a force that will be one of the greatest factors in the solution of the problems of agriculture and country life that must be solved if the national welfare is to be preserved.

#### BANKERS STATE COMMITTEES

"This conference of representatives of thirty-seven bankers' state associations urges upon every bankers' state association the importance of active committees on agriculture and education.

"Those states which have been active should continue and strengthen their efforts, and those having no committee on agriculture and education, or whose committees are dormant, should set about immediately to establish active and aggressive committees.

"To the Agricultural Commission of the American Bankers Association is suggested the advisability of formulating and submitting to these associations plans for the organization and operation of these committees.

"This conference calls upon the bankers' associations to make possible constructive work by these committees by providing them with sufficient financial support.

#### RURAL EDUCATION

"Agriculture will never become permanently prosperous and country life contented until the nation and states by financial appropriation make sure that the children of the country receive the education that is their right. Farm tenancy and other evils inevitably follow the lack of educational advantages in the open country. The children of the country should receive education equal to that received by the children of the city, with the addition that it should be an inspiration and preparation for farm life.

"That a majority of the one-room school houses in the United States in which most of the children of the farm receive all of their education can be consolidated; and the improvement of rural schools which are not susceptible to consolidation and better training and better salaries for rural teachers.

"This will undoubtedly involve supplementary state legislation and we call upon the committee on agriculture and education of the various bankers' state associations to urge their states to take immediate advantage of any Federal appropriations which may be made and otherwise to cooperate to improve conditions in rural education.

#### THE FARM BOYS AND GIRLS

"This conference bespeaks for the boys and girls of the open country the continued and increased interest of the banker, as manifested in numerous club activities in the past.

"Nothing should be left undone to make the farm profitable and likable for the generation that is to occupy it. It is suggested that some of the drift to the city can be averted by a recognition of the farm boy that involves making him a partner of his father. The good offices of the banker can be factors in bringing this about.

#### FARM TENANCY

"Farm tenancy is a constantly increasing menace to a permanent prosperous and safe agriculture and a contented country life. It has resulted in a loss of the priceless fertility of the soil—the creation of an unsettled farm population—illiteracy—an inefficient country school system—a drift from farm to city—and unprofitable methods of agriculture.

"Means must be found by which the industrious young farmer of character and skill in agriculture, even though of limited financial resources, can look forward to becoming a farm owner.

"This conference recommends that committees on agriculture of the bankers' state associations give serious attention to methods of correcting this dangerous condition.

"To the committees is suggested the advisability of selecting a banker leader in each county to bring together farm owners and tenants to devise means for the purchase of farms, utilizing governmental and private agencies.

"These committees should also inspire better systems of leasing that will provide protection for the fertility of the soil, longer tenures and provisions for the maintenance of live stock.

#### AGRICULTURAL LEADERSHIP

"This conference commends the work of the U. S. Department of Agriculture and the state colleges of agriculture. Bankers may well urge upon the public wider cooperation with these agencies and a more extended use of the great help to agriculture and country life which they are ready to supply.

"To the bankers' state association committees is suggested the importance of making sure that the state colleges of agriculture receive from the various state legislatures requisite financial support.

#### COUNTY AGENTS

"The county agricultural agent has proved a wonderful force in the extension of agricultural knowledge. The extension of the county agent system should be continued until, as provided by the Smith-Lever law, there is an agent in every agricultural county in the nation. The county farm bureaus now existing should be strengthened in

every possible manner and the bankers of the United States are urged to cooperate to widen their influence.

"Where emergency county agents have been established as war measures, every effort should be made to continue the system permanently, that the nation may be supplied with agricultural agents even more rapidly than contemplated by the Smith-Lever law. To Congress is suggested the importance of making this possible by continuing appropriations for these temporary agents.

"This conference also urges the extension of the system of home demonstration agents for women that nothing may be left undone that will make the lot of the farm woman happier and healthier.

### MARKETING

"No problem is more pressing than that of the marketing and distribution of farm products. The influence and energies of the bankers of the United States should be placed behind all movements which tend to improve and stabilize these processes. In this connection we believe:

"First:—The organization of farm marketing associations should be encouraged.

"Second:—The adoption of uniform warehouse receipts should be urged.

"Third:—We favor laws authorizing the Secretary of Agriculture to still further prescribe grades and standards for farm products and to provide for the inspection of same.

"Fourth:—We commend the work of the Bureau of Markets of the United States Department of Agriculture in furnishing a market news service and urge its further extension.

### GOOD ROADS

"It is very gratifying to note the apparently rapid growth of sentiment and action favorable to the establishment of good roads and highways throughout the country. This matter is vitally connected with the betterment of agricultural conditions.

"It is inseparably connected with the problems of improved rural school conditions. It is a valuable factor in securing profit, convenience and economy of time and effort in farming operations and in modernizing farm life. We, therefore, urge on states, counties and committees to continue the work of the building of good roads extensively, providing funds for this purpose by loan issues and other methods and meeting the conditions necessary to share in Federal funds which are and shall be available for this work.



### "THE BANKER-FARMER"

"In order that the widest possible publicity may be given to the projects advocated by this Conference of Bankers Agricultural Committees we recommend that every bankers' association cooperate with the American Bankers Association in distributing the official magazine of the Agricultural Commission, *The Banker-Farmer*, to its members. It is the Commission's principal means of disseminating information and inspiration.

"J. R. WHEELER, Columbus, Wis., Chairman.

"H. M. COTTRELL, Little Rock, Ark.

"J. L. DUMAS, Dayton, Wash.

"M. A. GRAETTINGER, Chicago, Ill.

"W. C. GORDON, Marshall, Mo.

"D. S. KLOSS, Tyrone, Pa.

"R. H. SCHRYVER, Columbus, Ohio."

It has been widely published and has been commended by influential journals of agriculture.

### PROGRAM TO COME OUT

This, then, is the program which is suggested to the bankers of the United States. That it may be carried out demands aggressive organization by bankers' state associations. This is what the Commission is seeking to stimulate, at the same time stressing especial problems of national compass, such as farm tenancy, rural education and marketing and distribution.

The conference at Washington has stimulated state associations, hitherto inactive, and has revived others. The Commission looks forward to the time when every association will have an aggressive organization for agriculture, sufficiently financed and reaching out to every county in the state.

That more banks than ever before are engaged in some form of banker-farmer activity is evidenced by reports which come from every state. More than ever before the extension divisions of the state colleges of agriculture are mapping out their programs with a view to enlisting the support of the bankers of the state.

### THE BANKER-FARMER

To inspire the bankers of the country to carry out the program of the Washington conference the Commission knows of no agency at its command which can perform this mission as economically and efficiently as the publication monthly of *The Banker-Farmer*, by which, through cooperation with state associations, it is reaching nearly 15,000 banks every month.

It has been possible to present to these bankers the conclusions of the foremost leaders of agricultural thought. At the same time frequent stories of banker-farmer activities are told that other activities may be inspired. Letters from many banks explain that they have thus been led to enter upon banker-farmer work.

By virtue of having an agency at hand, the Commission was able to tell the story of the conference at Washington in a special edition and place it in more than 30,000 banks, at a minimum cost.

In the 12 months of the current fiscal year of the American Bankers Association, 292,690 copies of *The Banker-Farmer* have been published. Of these 177,063 have been received by bankers and the remainder have gone to farmers, farm editors, and others.

The Commission finds its publication most valuable in stressing the importance of consideration of farm tenancy, rural education and marketing and distribution. Therefore, it hopes to increase its circulation through state associations and suggests to members of the Executive Council their assistance in this matter.

The Commission believes that cooperation with the farmer by the banker will prove to be one of the greatest agencies in preventing social unrest. It has been predicted that the agricultural population of the United States in the final analysis will prove a sheet anchor of safety for the nation. But agriculture must be made permanent, safe, profitable and rural life must be made contented. There must be more actual owners on the land. The opportunity of the American banker to contribute much to the carrying out of these ideals is clear.

The Commission takes this opportunity of expressing its appreciation for the increasing support of thousands of American bankers who, with a desire for a better and more profitable agriculture, are giving of their time, effort and money in the belief that "he profits most who serves best."

**PRESIDENT MADDOX:** Gentlemen, the next speaker and the last on our program of distinguished speakers who have favored us during this convention, is one whom I know you will enjoy hearing very much. It seems to be the consensus of opinion that our future is going to depend largely hereafter upon the education of the people, not only the young people but the older people who are learning new lessons every day. This gentleman has given this subject a great deal of thought. He is a captain of educational industry. He realizes in the readjustment of the world, education must come up with the progression of the day. I take great pleasure in

introducing Dr. Claxton, Commissioner of Education of the United States, of Washington, D. C. (Applause.)

## EDUCATION TO MEET THE CHANGED SOCIAL AND ECONOMIC CONDITIONS IN THE UNITED STATES

DR. P. P. CLAXTON

I shall speak to you about some of the things which are necessary for us as citizens to consider in the readjustment, reconstruction, if you like to call it, of education to meet the new times which will come, because of the new era upon which we are entering.

We speak glibly of reconstruction in many departments of life. There will be reconstruction, but hardly in education, because from the very nature of the thing itself, education is conservative. It is its business to gather together the best of the experiences of the human race from all countries and of all ages, and insofar as it may be done to make it common possession of all. More than that education will remain practically the same. Children will be born and reared about the same way; their physical developments and mental developments and the development of their moral habits and the establishment and the forming of their ideals will come about in the same way. The heavens above them and the earth on which they are will be as they were with very little change. Nor will the laws of natural science be changed. It will, however, be necessary to make readjustments.

But education is always a matter of great importance, and though you could have a perfect school system today in the city of St. Louis or the State of Missouri, or throughout the United States, perfectly and fully adapted to our present means and conditions, that school system would be out of date and need somewhat of readjustment tomorrow, because this is the twentieth century and the United States and its cities and not the middle ages and China. The world has just paid a great price for something, and it is going through the greatest upheaval in all its history. I doubt even if bankers are fully aware of the price we have paid and are paying. I read the other day that nine millions of men had been killed in battle, or were dying of wounds and diseases, because of their connection with the war. And the expense is not over yet. It has cost us a million dollars a day or more. You know more clearly what it is and it is costing the world. Empires crumbled, boundaries were wiped out, the established functions were discredited and discarded, the great upheaval of the world has come and it is not soon to be settled. Those who have studied the history of such things do not expect it to be settled in this year

or next year, or the next decade, or the decade after that, or in the next hundred years.

When we pay a price like that we should get something of a result. The changing of a boundary line and paying of tribute to one nation rather than another, the going about of a Kaiser from one place to another, is not sufficient pay. Certainly the glory of victory sinks into insignificance when the world pays a price of that kind.

We are a young nation, but one of the oldest governments in its present form in all the world. Only about a century and a half—hardly so much, yet—has elapsed since we declared and finally established our independence. We were a small people with only about three million of us fringed along the Atlantic seaboard, but we have increased and we have pushed our way across the mountains, turned our faces inland from the sea with great tasks before us to conquer, and we have worked them out as no people have ever worked in the past before in all of its history. And in these 150 years and less we have largely performed that task. We have broken the prairies, tunneled the mountains, bridged the streams, harnessed our water-power, we have exploited our mines, we have built our cities. We have worked out a high ideal, a much higher one than has obtained in other countries, that it is disreputable for men to eat their bread in the sweat of another man's face, to lay the lash on the back of unrequited labor. We have gotten the other ideal and we have worked it out and incidentally we have accumulated wealth as no other people in the world ever accumulated it.

We were told in 1914 that we, who were but one-seventeenth of the world, owned more than one-third of all of the wealth of the world; the proportion is still greater now. And in some of the utilities of life, transportation, for instance, we were told the other day that the United States has 92% of all the automobiles in the world. When the war began we were a debtor nation; we were the greatest agricultural nation, the greatest industrial nation, in the world. We manufactured more goods, the output of our factories was twice as great as that of any other nation and nearly as large as that of any three nations. But we are no longer a debtor nation, we hold the statements of indebtedness probably to the extent of fifteen billions or more odd dollars of other countries. I said we were a great agricultural and industrial nation, but judging from the way we bought and sold at our ports it would appear that we were not an exporting nation, but it is very evident that in the immediate future we shall be sending the products of our fields and mines to all parts of the world under the American flag and in American ships, directed by American merchants and financed by our international, mercantile banks. (Applause.)

It is the change in the life of the people; more than that, all the

world is looking to us now for ideals and example in many things. You know how they have looked to us for ideals in government, how they have named streets after American names, and how these United States and their institutions of democracy have become the hope of the world.

When I think of all these things and our great fight for freedom, there always comes into my mind, and I hear his voice as it comes from the hills and mountains of the country, the prayer of the great Pestalozzi a hundred years ago, about the time of the ending of the Napoleonic wars when the nations of the earth had been shaken somewhat as they have been now, when the cry of freedom was in the air, he prayed this prayer: "Would to God that some archangel would fly through the hills and valleys of this country and proclaim in thundering tones that there can be no freedom without the education of man." And when the world was looking about for some means of relieving poverty and the misery of the people, he boldly proclaimed there was no way to help any people except to help them to help themselves, to give them the knowledge, the understanding, and the good will, and the strong purpose that by their own initiative and guided by an understanding of the great laws of nature and appreciation of their relations to their fellows they should work out their own salvation.

Bury a pauper today and another has to be buried tomorrow; feed a tramp today and his hunger tomorrow is the result; pension a man or woman today, and the longer you pension them and let them live without exerting their own powers the more helpless do they become. That is the great law of the world.

Now, we, in this country, have not been unmindful of the importance and value of education. We have for a long time boasted of our public school system as the most distinguishing and characteristic institution of our democracy; we have issued the proclamation that in a democracy everything waits on education; we have added that declaration to the preamble to the Declaration of Independence. We have phrased it something like this: That all men are created equal with certain inalienable rights; among which are life, liberty, the pursuit of happiness and equality of opportunity, and we know that there can be no equality of opportunity in industrial or economic or social or civic or agricultural life except through equality of opportunity in education. For, gentlemen, it is true that if there be a child anywhere permitted to grow to manhood or womanhood without that quantity and quality of education that will fit it for making a living, for using to the best advantage its capital of time and energy and whatever little money it may have, fit it for the duties and responsibilities of citizenship in a democracy and imposed on all alike, and fit it for happy and good and joyous living, then there is nothing

which you or I can do, nothing which society or the state can do, nothing which man or God can do that can ever make good that loss. And I have come to believe and I wish I could make all the people of the United States believe that that is the first duty which we owe to our children who are to be the citizens in the next generation, and into whose hands the destinies of the country and the power of making wealth of industrial and commercial life shall go.

I need not say to you, for you know it already, that all peoples have wealth and wealth producing power almost regardless of all other conditions in proportion to the kind and quality of their education. If you will look over the world you will see that the wealth of nations and of peoples does not depend on natural resources. If so, the valley of the Amazon, Mesopotamia, many other places that are poor would be rich and Massachusetts and Scotland and Denmark and Switzerland that are rich would be poor. It does not depend primarily on native ability either, because races that have remained poor for generations, under the inspiration and the power of education, of knowledge and of training, have rapidly grown rich. It is not necessary to enumerate the countries, you think of them immediately. If we are to pay the debt, if we are to increase our wealth, if we are to have wealth enough in this country and in the world, if there could be a good home for every family, one for men and women to live in, one suited for children to be born and reared where there would be some privacy for each member of the family, if we are to do away with the slums of our city, if we are to build our roads and bridge our streams, if we are to have money to pay for the preservation of the health of all the people, if we are to be able to give to the great mass of the working people a bit of leisure, if they could have the means of travel to see something of this world in which they live only for once, if we are to make every place, every village, a place of beauty for the country side to rejoice in, if we are to have money to build our schools and our churches, to pay our preachers and our teachers, then it is necessary that we shall consider the money value of education.

I shall not dwell on it. The civic problems are all very great, they were great enough before the war began. If you will look at the statute books, the acts of the Legislatures and of the Congress of the United States you will see how rapidly they have grown from thin volumes to very big volumes. I was struck by the statement of Senator Bailey before he resigned his position as Senator, that long speech in which he stated that 40,000 bills had been introduced during the life of that Congress. Then came my thought that 40,000 things were left undone after one hundred and twenty-five years of legislation! One would think that they would have more nearly finished the job by that time. Now that we are close to the nations

of the world, with the ocean no longer separating us, that our splendid isolation is gone, whatever interests the world interests us and whatever we do, whatever ballot may be cast in any part of our country will make not only the ballot of state and nation but determine the destiny of the world. These problems become far more difficult, industrial life is more complex.

What is the response to it in the schools? First, it must mean universal education in a way that we have hardly dreamed yet. I know we boasted of our school system and we thought we were doing the job of educating the people and despite all of the criticism of it, it is in many ways the most effective that the world has ever known. Then the census of 1910 told us that there were about nine and one-half million children in the United States over ten years of age, nearly five million over twenty years of age who could neither read nor write their names. Three millions could not speak the English language, whether they were educated in a foreign language we don't know, but the fact remains they could not understand the English language. And the examination of soldiers in the cantonments revealed the fact that the census figures were all wrong. That examination showed that nearly one-fourth of the men between 18 and 31 who had been called were unable to write a letter home that could be read intelligently, or to read the reports or the newspapers. You know what that means in lack of efficiency, and lack of industrial efficiency. Suppose you take, say, the eight millions of people, five millions of them unable to speak English, I believe you will agree with me that each one of these persons would be on an average about 50% less productive, his labor would be worth that much less than it would be if he were very well educated; \$160 a year for each one of the eight million amounts to an immense sum.

In the future we must see to it that the attendance laws must be made effective, for when the children are in these schools we must see to it that they attend in sufficient numbers to adjust them to full development. Again, in the war we were shown another defect in our educational system, and in one state alone 37½% of the young men who were brought into the camps and cantonments were discarded because of some physical defect. Just think of it, almost a third of them were found unfit for full military service, and we were informed that a very large per cent. of those, possibly two-thirds of all, might have been avoided had proper care been taken of the health of the children in school and at their homes. Only in the last two decades have we been able to do anything for their health and scarcely anything is done yet to the end that they may grow into manhood and womanhood, strong, broad-shouldered, and with the strength and vitality to enable them to do the work of men and of women, so that they may not be doomed to stand on the shore in inaction, but breast the tide as men and women must in the world if they would succeed.

In one state a survey of health made by a reputable physician from a medical examination revealed the fact that one-fourth of the people of the state are sick all the time—500,000 of them in a state of only about two millions of people. If you ask the cost of that, it will amount to a million and a quarter of dollars to that state in a year.

If, for instance, we had been invaded by Germany, and it had been necessary to muster our forces, a third of our people unable to do full military duty would have been a great weakness to this country. We must see that the health of our children is cared for. Merely going to school and learning to read and write is not sufficient. They need to know the laws of hygiene and the laws of nature, and the science of knowing them and controlling them. A man working ignorantly in the field with the tools and implements of a generation ago is not working effectively.

Agriculture has come to be quite a science, and, as I said some time ago, I believe the agriculturist has come to realize the requirements of a broader and more comprehensive education—industrial education—training in the use of tools, in the various industries, as we now try to train a large number of the crippled soldiers that have been returned to this country so that they may be able to produce and support themselves, rather than have them supported while they live by a pension system of the government. But that is not all, there are problems on the other side, of physical and social life, from a study of history and of sociological relations, and the problems must be given in our schools, if they have not been given before. I know of those who think we should swing entirely away from that. If I may illustrate, giving Germany as an example, Germany had educated for efficiency; but because one strong man may not use his strength aright is no argument why we should not have it, and I say we must have it. And I say it must be developed in our schools.

I want to speak very briefly on an immediate problem before us; I refer to those ignorant men, five million of them in the United States. Of those 24 per cent who were examined in the camps and cantonments, and who were brought there by the power of the Federal Government, could not read the order that was sent them, and could not read the declarations or expositions of the ideals that lay behind the order. They had not a chance. Many of them are young men and young women, as yet only in middle life. The duty is ours as a nation to give them an opportunity that they may at least read a book, read the newspapers, or read the bulletins that are given to them how to cultivate their fields better, or how to make their homes better.

The other day I had a meeting of the Cotton Growers Association of New Orleans and my having to go there made me look up some



facts in regard to the people of their section. I found that practically half of the people who grow cotton, half of the farmers of those cotton growing states cannot read one out of the 125 bulletins published by the Department of Agriculture on cotton-growing and the protection of cotton against disease! Millions of dollars worth of these bulletins are published by the Agricultural Department of the Federal Government, by the agricultural departments of the various states and by the states. Half of the people who grow cotton cannot read one of them intelligently. A good fourth of them cannot read them at all. In some way we must find a means of educating these people, of giving them the ability to read and write, to bring them out of the prison walls of their own section.

There are probably five or six millions of foreign-born people in the United States, who have little knowledge of American life, American citizenship, our manners and customs, or our industries, and they are proving to be more or less dangerous to us. You read in the papers every day of bringing them together, of their being excited about this or the other thing. Americanization is a part of the great immediate problem of education, that these people may have an opportunity to learn our language, that they may read our papers, that they may begin now to exercise the ideals of the American people, that they may know more of the opportunities offered them here and of the duties and responsibilities of American citizenship. These men usually work eight hours. If they work eight hours in the day, they can have at least two or three hours every night to study, that they may have a better knowledge of their vocation and full knowledge of their duties and responsibilities as citizens in our republic.

We have four millions of returned soldiers; they have been preached to in the camps and cantonments here, and over seas, as to the importance of education. They have been told of the places, the part which they will play in national life, and they have formed a great desire for education that will fit them better for the work that they are to do and give them better knowledge of the requirements of our democracy. All of this seems to prove that there is a great opportunity and a great responsibility resting on state departments of education, and on your state universities and other institutions of higher learning to inaugurate some form of educational extension that will give to these millions of illiterate people, these millions of foreign born people, who live among us, the returned soldiers, the laboring people, the millions of women coming into the right and power of suffrage, some opportunity for the type of education that will fit them for life and for citizenship, and for the duties and responsibilities that are involved in it. It is a problem for state and for nation, and we *must* solve it. The problem of raising money for better pay of teachers, that they may be paid at least as much as laborers, can be slowly

worked out and adjusted as we have opportunity to do it; but these problems of educational extension to meet the immediate demand of those who are now active citizens in adult life cannot be postponed.

As members of the bankers association, as leading citizens of the United States and of the communities in which you live I am sure that you will be interested in these problems and that you will have much power in helping to solve them. I thank you. (Applause.)

**PRESIDENT MADDOX:** The Resolutions Committee will now report.

**MR. HINSCH:** I have been asked to make this report for and on behalf of the members of the Resolutions Committee as neither the chairman nor any of the members is present at this time.

(Mr. Hinsch read the following resolutions, which were unanimously adopted.)

### REPORT OF RESOLUTIONS COMMITTEE

"Resolved, That we recognize the vital importance of the inland waterways of our country as an important part of our system of transportation, and realizing that increased transportation facilities are at this time one of our nation's greatest needs, we urge upon Congress immediate legislation and appropriation to improve and extend these highways of commerce so as to afford in many sections of the country the most economic route from interior points to the seaboard."

"Whereas, The great army of investors created by government war loans are being defrauded of tens of millions of dollars by unscrupulous vendors of worthless stock; and

"Whereas, The consequent depletion of the country's capital; unemployment; reduced buying power and reaction in the minds of the people turning them from patriotic thrift into dissatisfaction and distrust of our institutions and of public securities is of vital concern to all reputable business men; and

"Whereas, A movement has been initiated to organize business associations to combat the stock swindling evil; and

"Whereas, Secretary of the Treasury Glass said of such a movement that it 'will not only be desirable but almost essential,' and Mr. Hamlin, Chairman of the Capital Issues Committee wrote that he believed the proposed loan 'will go far toward checking the evil,' be it

"Resolved, That the American Bankers Association endorses the purposes of the Business Men's Anti-Stock Swindling League and requests enrollment as a co-operating member."

"Whereas, The gold production of the United States, which declined so rapidly during the war period, has since the signing of the armistice still further declined because of the extreme economic pressure to which the gold mining industry has been subjected; and

"Whereas, Gold is the standard of value and the basis of all credit, and it is vitally important to the financial and commercial life of the nation that the monetary reserve be protected,

"Now, Therefore, Be It Resolved, That the American Bankers Association in convention assembled, respectfully request and urge upon the Government of the United States the desirability of maintaining the domestic production of new gold in sufficient volume to satisfy the present anticipated trade requirements for this metal, and ask that steps be taken immediately to that end; and

"Be It Further Resolved, That the General Secretary of this Association be, and hereby is instructed to send a copy of this resolution to the President of the United States, the Secretary of the Treasury and the members of the Senate and House of Representatives of the United States, advising them of its adoption; and,

"Be It, Also, Further Resolved, That considering the great importance of this subject, this convention recommends to the Executive Council that the matter be referred to the Federal Legislative Committee and the Currency Commission for an exhaustive study and such action as may be deemed necessary."

"Whereas, The United States Treasury Department is continuing to offer its savings securities not only to provide funds for the use of the Government but to encourage thrift as an essential condition for economic readjustment; and

"Whereas, The high cost of living crisis re-emphasizes the need for thrift, since thrift promotes increased production and saving upon which the readjustment of wages and prices waits;

"Therefore, Be It Resolved, That the American Bankers Association heartily endorses the principles of the National Thrift Movement inaugurated by the United States Treasury Department, namely, wise spending, intelligent saving and safe investment; and pledges its members to aid the movement in every possible way; and

"Be It Further Resolved, That this Association heartily endorses the plan for National Thrift Week, set for January 17th, 1920."

"Resolved, That the American Bankers Association endorses the principle of universal training for the youth of the nation; and recommends to the Congress of the United States that suitable laws be enacted to provide for this important and very valuable education in the duties and responsibilities of citizenship for all young men, as they reach maturity.

"Be It Further Resolved, That the Association call upon its mem-

bers individually in favor of universal training to do their full duty in spreading, without delay, full information in every community in order that the people may understand the object and the results to be expected from such laws."

"Whereas, A terrible disaster has overtaken the people of Corpus Christi, resulting in the loss of about a thousand lives, and which has left many hundreds of people destitute;

"Be It Resolved, That we call to the attention of the members of the American Bankers Association the necessity for prompt and generous financial assistance."

"Whereas, It has come to the attention of the American Bankers Association, in convention assembled, that Col. Fred. E. Farnsworth has indicated his desire to leave the office of General Secretary of the Association to accept another position; and

"Whereas, Under the administration of our said Secretary he has been largely instrumental in increasing its membership from 9,251 to 20,214 members; has greatly enlarged its activities and inspired constructive policies, investments and services of untold value to American bankers, and as incidental thereto has taken part in the establishment of the Journal of the Association, a Legal Department, a Protective Department with a Rogues' Gallery, containing over 6,000 photographs of criminals and alleged criminals, a large Library of specialized works accessible to the members of our Association, all of which has been helpful in making this Association one of the most potent and effective factors in developing the banking and trust business of the nation, and

"Whereas, In addition to the material benefits which he has brought to this Association and its membership, he has also assisted in creating a warm and helpful personal relation between the members of our Association and a large circle of public officials and economic and business experts, thereby building a strong national support for and confidence in the American Bankers Association as an instrumentality for our national welfare, as well as the good of its own members; therefore be it

"Resolved, That the American Bankers Association in this forty-fifth annual convention assembled, does hereby extend to Colonel Farnsworth its deep and grateful appreciation for his efficient official services, and for the personal sacrifices which he has made for the growth of our Association and the extension of its material benefits to our members; and

"Be It Further Resolved, That the Association does hereby extend to Colonel Farnsworth its good will and best wishes in the new field of endeavor which he is about to enter, and that the influence and grateful appreciation of this Association shall go with him."

**PRESIDENT MADDOX:** I am sure you will all hear that resolution with a great deal of regret, and as evidence of our appreciation of the splendid services of Colonel Farnsworth who has been in this Association for more than twelve years, and as evidence of your good will in his new field, I suggest that you rise.

(A rising vote of thanks was tendered Colonel Farnsworth.)

**MR. HINSCH:** This is submitted with the other resolutions by the committee, consisting of Mr. Festus J. Wade, Chairman, and the rest of the committee:

"It is the unanimous opinion of the Committee on Resolutions that the American Bankers Association should express by a rising vote its appreciation of the successful efforts made by those who have contributed to making this, the forty-fifth annual convention, an outstanding social and business success.

"Special thanks are tendered to the Algonquin Country Club, Bellevue Country Club, Boggy Club, Forest Park Golf Club, Log Cabin Club, Midland Valley Country Club, Normandy Golf & Country Club, Ridgedale Country Club, Triple A Golf & Tennis Club and Westwood Country Club, who extended their full hospitality and club facilities to the delegates and their guests.

"To the associated banks of St. Louis grateful acknowledgment is made for the very happy and continuous entertainment supplied to delegates, guests and visitors and especially for the cordial welcome and hospitality offered at the banking rooms of all of the banks in the city of St. Louis, and to the ladies of this city who extended to visiting ladies the splendid welcome, evidenced by many charming receptions and social events.

"The welcome of Frank O. Watts, president of the St. Louis Clearing House Association was most pleasantly and concretely reflected in the actions and hospitality of the bankers of St. Louis. Nothing has been neglected which could add to the pleasure, entertainment and profit of the visitors and the work of the delegates at this convention.

"We desire to express our grateful appreciation and sincere thanks to Hon. Robert L. Owen, United States Senator from Oklahoma, Hon. W. P. G. Harding, Governor, Federal Reserve Bank, Hon. John Barrett, Director General of the Pan-American Union, David R. Francis, Ambassador Extraordinary and Plenipotentiary to Russia, Hon. A. Mitchell Palmer, Attorney General, United States Department of Justice, Dr. Irving Fisher, Yale University, and Dr. P. P. Claxton of Washington, Commissioner of Education, for having honored us with

their presence and for the instructive, timely and masterly addresses delivered by them respectively.

"We desire to express particular appreciation for the manner in which the local press, the newspaper correspondents, the Associated Press and the United Press have handled the news of the convention, and for the generous space the newspapers and bank publications have given to our deliberations and proceedings; and we are grateful to the Statler, the Jefferson and the Planters hotels for courtesies extended, and for official quarters furnished, complimentary, to the Association, its several sections and officers.

"Since the American Bankers Association has established an enviable record for loyalty, patriotism and financial support in the prosecution of the late war, and is now taking such an enviable and foremost place in the progressive agencies for the establishment of permanent peace and prosperity of our people, and since these ends could not have been accomplished but for the loyal support and co-operation of the member banks, we desire to extend our heartfelt thanks to each and every one of them for the part they have taken and the ready manner in which they have acceded to every request for cooperation from this organization."

PRESIDENT MADDOX: Gentlemen, you have heard the resolution read by Mr. Hinsch. I am sure you will all agree we have never been so beautifully and delightfully entertained as we have been in this city of St. Louis, and as an expression of our appreciation of the entertainment we have had here, the pleasure and the benefit we have derived, I move we rise.

(A rising vote was had.)

Mr. Hawes, will you please step forward. Gentlemen, it now becomes my very pleasant duty to pin the President's pin upon a gentleman whom I have known for a number of years. I congratulate you upon your choice. He is a gentleman in whose hands you may feel perfectly sure the best interests of the Association will be safe, and I predict for your Association under his administration the most brilliant year the American Bankers Association has ever enjoyed. Mr. Hawes.

PRESIDENT HAWES: Mr. Maddox, members of the American Bankers Association and Ladies: I am deeply grateful for your cordial applause and it inspires in me thoughts that

make me feel possibly I might measure up in a small way to the splendid introduction given to me by Mr. Maddox. It would indeed be a great man who could say that he could measure up to the achievements of the past presidents of the American Bankers Association. Men have gone before in this position, ladies and gentlemen, who have filled the pages of our Association with historical achievements that reflect credit not only upon them personally but upon every banker in America. And gentlemen, no page in the history of your Association is more filled with such achievements than the past year under Robert F. Maddox. (Applause terminating in the audience rising.)

I have but little to say to you except briefly to certify to my desire that I ask for your cooperation in the activities of the Association during the ensuing year. The period which we are going through, the speeches which have been made to you today must have made a deep impression upon your minds; they must have convinced you that it is a day of service; that while we were drafted during the war, we must volunteer as true American citizens to serve our country in the solution of the problems we have before us. (Applause.) In my judgment, gentlemen, a sacred duty is charged to the bankers of America and that is to lead in every institution in America, in Americanism, for Americanism and for American liberty only, and stand out forever against any radicalism which may appear in their midst. (Applause.) The Association in my judgment has a brilliant future before it. We lose today the valuable services of a great secretary but it is hoped that we may put in his office, if it is possible, a man who will measure up to his achievements, and that the Association will grow and extend its powers into every community in this country; and that when the years have come and gone, and our children's children look upon the record of the American Bankers Association of these years, they will say, "Well done, good and faithful American citizens." I thank you. (Applause.)

It is now my great pleasure to present to you a distinguished

son of the Golden West, a man who has attained the height of his ambitions in his own state, who has grown in achievements in every position which he has occupied, and who has now by your suffrage been elected today the First Vice-President of the American Bankers Association, Mr. John S. Drum of California. (Applause.)

MR. DRUM: Mr. President, members of the American Bankers Association, Ladies and Gentlemen: I am sincerely thankful to you for this honor you have paid me, and I feel under especial obligations because I have not had the opportunity, as so many of your past officers have had to know you intimately as I should like to; but I do hope during the coming year that I shall have the opportunity to know you and to feel that I am your representative in a personal sense as well as in an official sense. All I can say, so far as the administration of my office is concerned, is that I shall give to your President, Mr. Hawes, the most loyal support that I am capable of, and I shall also endeavor to live up to the ideals of the Association and to do that work which I am sure every officer of this Association must do if he is going to make bigger, broader, better and more powerful in every way this great Association. All I can say, finally, is simply this, that I am going to try in every way to justify the confidence and the trust that you have shown in me by electing me to this office. (Applause.)

PRESIDENT HAWES: Gentlemen, it is my delightful pleasure to be able to present to you a distinguished Virginia citizen whom you have elected as your Second Vice-President. It affords me great pleasure to present to you Thomas B. McAdams of Virginia. (Applause.)

MR. McADAMS: President Hawes, Gentlemen of the American Bankers Association, Ladies and Gentlemen: There are moments in a man's life when one's heart is so full of conflicting emotions that it seems almost impossible to make an adequate response to the demands of an occasion. To possess the good will and the esteem of such a body of men



as are those who compose this great American Bankers Association is an asset of which every American banker might well feel proud. In thanking you most sincerely for this great honor that you have seen fit to bestow upon me and in accepting it with a full realization of the great responsibilities which go with it, I can only assure you that such talent, such energy, such enthusiasm, such ability as I may possess may be devoted at all times to advancing the best interests of this Association and to help broaden its influence throughout this whole land of ours in behalf of every movement which stands for American policies and the development of American ideals. (Applause.)

**PRESIDENT HAWES:** The chair will now take pleasure in recognizing Mr. F. O. Watts.

**MR. WATTS:** One of the problems of this blessed country of ours has been, what shall we do with our ex-Presidents. (Laughter.) That problem has arisen in times gone by in the American Bankers Association and at that time we decided in the language of a distinguished deceased president that we would put them in a state of innocuous desuetude. In order that you may be able to recognize the ex-President after the lapse of a brief time a custom arose that we would give them such a badge as that I hold in my right hand. The conspicuous service which has been rendered to the American Bankers Association by the incumbent of that office during the year 1918 and 1919 was such, and his administration of that office was such, that a badge would be wholly unnecessary; but it was thought not to present him with such a badge would be to draw an invidious comparison between him and others who have preceded him in that position. I take pleasure, Mr. Maddox, in presenting to you this badge which I am sure you will wear with great satisfaction and with the knowledge that you possess in retiring from the office the affections and good will of every member of the American Bankers Association, whether he be present in St. Louis or not. (Applause.)

(At this point a handsome silver plate service was presented to the retiring President by Mr. Hinsch, in behalf of the Association.)

MR. MADDOX: Mr. Hinsch and members of the American Bankers Association: I appreciate this more deeply than words can express. If during my administration as your President, the American Bankers Association has held the position it occupied when I assumed that office my efforts have not been in vain. If it has advanced and its service has been greater to our membership and our country, it has been due to the other officers of the Association. But I am glad to have this tangible evidence of the service I have had with you to take to my home, and when I am gone, to leave to my children. But let me say to you that in the mind of memory I shall draw precious recollections of friendship that time cannot tarnish and which I hope time will even make brighter, and I will always value it more highly than all this exquisite silver for which I thank you in the name of Mrs. Maddox and myself. (Applause.)

GENERAL SECRETARY FARNSWORTH: I want to encroach on your time and the American Bankers Association members for only a few moments. I would certainly be very remiss if I did not express to the members of the Association my appreciation of a resolution which was passed by you this afternoon. I confess it came to me as a surprise. As has been said in those resolutions, I have served the American Bankers Association for twelve years. I have enjoyed the work. I have made friends, I believe, throughout the country. I have visited every state in the Union possibly with two or three exceptions and attended conventions in every state in the Union. I have always received most courteous and hospitable treatment. I have only this to say, that I hope now that I retire to business life instead of to banking life and that should I take occasion, which I hope to do, to renew the acquaintances I have made during the last twelve years, I will receive that same warm grasp of the hand and that

same heartfelt sentiment of friendship which it has been my good fortune to enjoy during all these years. As the Administrative Committee and the Executive Council know, while I have retired absolutely, I have so arranged that I can give a few days or a few weeks, if necessary, to the affairs of the Association to close up the matters relating to this convention. I shall always have the warmest affection not only for the American Bankers Association but for every member of it and will always want to do everything I can to further your interest. I thank you most sincerely. (Applause.)

**PRESIDENT HAWES:** I think that I voice the sentiment of not only the delegates here but of the American Bankers Association, when I assure General Secretary Farnsworth that the resolution was adopted with all sincerity and with heartfelt good wishes.

If there is no further business for the convention, a motion to adjourn will be in order.

Whereupon, on motion duly made and seconded, the forty-fifth annual convention was declared adjourned *sine die*.

# **OFFICERS OF THE TRUST COMPANY SECTION**

**AMERICAN BANKERS ASSOCIATION**

**1919-1920**

**Organized September 24, 1896**

**PRESIDENT:**

**LYNN H. DINKINS,**

**President Interstate Trust & Banking Company, New Orleans, La.**

**FIRST VICE-PRESIDENT:**

**EDMUND D. HULBERT,**

**President Merchants Loan & Trust Company, Chicago, Ill.**

**CHAIRMAN EXECUTIVE COMMITTEE:**

**J. A. HOUSE,**

**President The Guardian Savings & Trust Company, Cleveland, Ohio.**

**SECRETARY:**

**LEROY A. MERSHON,**

**5 Nassau Street, New York.**

## EXECUTIVE COMMITTEE

### MEMBERS EX-OFFICIO:

UZAL H. McCARTER, President Fidelity Trust Co., Newark, N. J.  
FRANK W. BLAIR, President Union Trust Co., Detroit, Mich.  
JOHN W. PLATTEN, President U. S. Mortgage & Trust Co., New York.

### (TERM EXPIRING 1920)

JOHN S. DRUM, President Savings Union Bank & Trust Co., San Francisco, Cal.  
SOLOMON A. SMITH, President Northern Trust Co., Chicago, Ill.  
J. A. HOUSE, President The Guardian Savings & Trust Co., Cleveland, Ohio.  
HENRY M. CAMPBELL, Chairman of the Board, Union Trust Co., Detroit, Mich.  
MYRON S. HALL, President Buffalo Trust Co., Buffalo, N. Y.

### (TERM EXPIRING 1921)

CHARLES H. SABIN, President Guaranty Trust Co. of New York, New York City.  
S. DAVIES WARFIELD, President Continental Trust Co., Baltimore, Md.  
ISSAC H. ORR, Vice-President St. Louis Union Trust Company, St. Louis, Mo.  
C. J. BELL, President American Security & Trust Company, Washington, D. C.  
THEODORE G. SMITH, President International Trust Co., Denver, Colo.

### (TERM EXPIRING 1922)

NATHAN D. PRINCE, Vice-President Hartford-Connecticut Trust Company, Hartford, Conn.  
GEORGE D. EDWARDS, Vice-President Commonwealth Trust Company, Pittsburgh, Pa.  
EVANS WOOLLEN, President Fletcher Savings & Trust Company, Indianapolis, Ind.  
JOHN STITES, President Louisville Trust Company, Louisville, Ky.  
W. J. KOMMERS, Vice-President Union Trust Co., Spokane, Wash.

## SUB-COMMITTEES

### COMMITTEE ON LEGISLATION

(Handling Federal Legislative Matters)

**HENRY M. CAMPBELL**, Chairman of the Board, Union Trust Co., Detroit, Mich. (Chairman).

**UZAL H. McCARTER**, President Fidelity Trust Co., Newark, N. J.

**OLIVER C. FULLER**, President First Wisconsin Trust Co., Milwaukee, Wis.

**ISAAC H. ORR**, Vice-President St. Louis Union Trust Co., St. Louis, Mo.

**C. J. BELL**, President American Security & Trust Co., Washington, D. C.

**LUCIUS TETER**, President Chicago Trust Co., Chicago, Ill.

### COMMITTEE ON PROTECTIVE LAWS

(Handling State Legislative Matters)

**THEODORE G. SMITH**, President International Trust Co., Denver, Colo. (Chairman).

**WILLIAM C. HEPPENHEIMER**, President Trust Co., of New Jersey, Hoboken, N. J.

**NATHAN D. PRINCE**, Vice-President Hartford-Connecticut Trust Co., Hartford, Conn.

**W. S. McLUCAS**, President Commerce Trust Company, Kansas City, Mo.

**G. W. HOLMES**, Secretary First Trust Co. of Lincoln, Nebraska.

**CLAUDE HAMILTON**, Vice-President Michigan Trust Co., Grand Rapids, Mich.

### COMMITTEE ON PUBLICITY

**FRANCIS H. SISSON**, Vice-President Guaranty Trust Co. of New York, New York City (Chairman).

**FRED W. ELLSWORTH**, Vice-President Hibernia Bank & Trust Co., New Orleans, La.

**G. PRATHER KNAPP**, Manager of Publicity, Mississippi Valley Trust Co., St. Louis, Mo.

**EDWARD H. KITTREDGE**, Advertising Manager, Old Colony Trust Co., Boston, Mass.

**I. WEBSTER BAKER**, Publicity Manager, The Guardian Savings & Trust Co., Cleveland, O.

## COMMITTEE ON COOPERATION WITH THE BAR

**WILLIAM S. MILLER**, Vice-President Northern Trust Co., Chicago, Ill.  
(Chairman).

**RALPH STONE**, President Detroit Trust Co., Detroit, Mich.

**L. H. ROSEBERRY**, Trust Attorney Security Trust & Savings Bank, Los Angeles, Cal.

**G. F. CLARK**, Vice-President Union National Bank, Seattle, Wash.

**F. N. B. CLOSE**, Vice-President Bankers Trust Co., New York City.

## COMMITTEE ON STANDARDIZATION OF FORMS AND CHARGES

**GEORGE D. EDWARDS**, Vice-President Commonwealth Trust Co., Pittsburgh, Pa. (Chairman)

**JOHN H. COVERLEY**, Trust Officer Title Insurance & Trust Co., Los Angeles, Cal.

**R. L. SHEPPARD**, Trust Officer Security Savings & Trust Co., Portland, Oregon.

**H. F. WILSON, JR.**, Vice-President Bankers Trust Co., New York City.

**ARTHUR V. MORTON**, Vice-President The Pennsylvania Company for Insurance on Lives and Granting Annuities, Philadelphia, Pa.

## SPECIAL COMMITTEE ON LEGISLATION

**WILLIS H. BOOTH**, Vice-President Guaranty Trust Co. of New York, New York City (Chairman).

**FRANK W. BLAIR**, President Union Trust Co., Detroit, Mich.

**A. A. JACKSON**, Vice-President Girard Trust Co., Philadelphia, Pa.

## STATE VICE-PRESIDENTS

- ALABAMA:** E. W. LADD, President Merchants Bank, Mobile.
- ARIZONA:** W. C. FOSTER, Secretary and Treasurer Phoenix Savings Bank & Trust Company, Phoenix.
- ARKANSAS:** CHARLES G. HENRY, President Arkansas Bank & Trust Company, Newport.
- CALIFORNIA:** L. H. ROSEBERRY, Trust Attorney Security Trust & Savings Bank, Los Angeles.
- COLORADO:** D. S. STONE, President United States Bank & Trust Company, Grand Junction.
- CONNECTICUT:** C. S. BOISES, Treasurer Seymour Trust Company, Seymour.
- DELAWARE:** RICHARD REESE, Vice-President Equitable Trust Company, Wilmington.
- DISTRICT OF COLUMBIA:** JOHN B. LARNER, President The Washington Loan & Trust Company, Washington.
- FLORIDA:** R. E. WHEELER, Chairman of Board Guaranty Trust & Savings Bank, Jacksonville.
- GEORGIA:** F. S. ETHERIDGE, President Atlanta Trust Company, Atlanta.
- IDAHO:** WILLIAM THOMPSON, President Idaho Trust Company, Lewiston.
- ILLINOIS:** GEORGE W. TELLING, President Commercial Trust & Savings Bank, Danville.
- INDIANA:** J. V. CARPENTER, Secretary Brasil Trust Co., Brasil.
- IOWA:** J. F. TOY, President National Bank of Commerce, Sioux City.
- KANSAS:** L. W. CLAPP, President First Trust Company, Wichita.
- KENTUCKY:** A. G. STITH, Vice-President Louisville Trust Company, Louisville.
- LOUISIANA:** C. G. RIVES, JR., Vice-President Interstate Trust & Banking Company, New Orleans.
- MAINE:** GEO. H. WEEKS, Vice-President Fidelity Trust Company, Portland.
- MARYLAND:** F. G. BOYCE, Vice-President Mercantile Trust & Deposit Company, Baltimore.
- MASSACHUSETTS:** CHARLES G. BANCROFT, President International Trust Company, Boston.
- MICHIGAN:** CLAUDE HAMILTON, Vice-President Michigan Trust Company, Grand Rapids.



**MINNESOTA:** D. L. CASE, Vice-President Minneapolis Trust Company, Minneapolis.  
**MISSISSIPPI:** O. B. TAYLOR, Vice-President Merchants Bank & Trust Company, Jackson.  
**MISSOURI:** THOS. C. HENNINGS, Vice-President Mercantile Trust Company, St. Louis.  
**MONTANA:** PETER J. OSWEILER, Cashier Bank of Fergus County, Lewistown.  
**NEBRASKA:** GEO. H. THUMMEL, Vice-President First Trust Company, Omaha.  
**NEVADA:** MOSES REINHART, President Winnemucca State Bank & Trust Company, Winnemucca.  
**NEW HAMPSHIRE:** JOSEPH L. CLOUGH, Treasurer Nashua Trust Company, Nashua.  
**NEW JERSEY:** J. H. BACHELLER, President Ironbound Trust Company, Newark.  
**NEW MEXICO:** C. S. WHITE, Vice-President First National Bank, Albuquerque.  
**NEW YORK:** GEORGE P. KENNEDY, President Italian Discount & Trust Company, New York.  
**NORTH CAROLINA:** GRAHAM H. ANDREWS, Vice-President Raleigh Savings Bank & Trust Company, Raleigh.  
**NORTH DAKOTA:** P. L. CLEMENS, Secretary Northern Trust Company, Fargo.  
**OHIO:** E. S. HANSON, Vice-President Superior Savings & Trust Company, Cleveland.  
**OKLAHOMA:** H. L. STANDEVEN, Active Vice-President Exchange Trust Company, Tulsa.  
**OREGON:** WILLIAM POLLMAN, President Baker Loan & Trust Company, Baker.  
**PENNSYLVANIA:** A. C. ROBINSON, President Peoples Savings & Trust Company, Pittsburgh.  
**RHODE ISLAND:** HENRY B. CONGDON, Secretary Industrial Trust Company, Providence.  
**SOUTH CAROLINA:** W. K. McDOWELL, President Exchange Banking & Trust Company, Charleston.  
**SOUTH DAKOTA:** A. KOPPERUD, President Security Bank & Trust Company, Webster.  
**TENNESSEE:** WALTER MCCOY, Cashier Mechanics Bank & Trust Company, Knoxville.  
**TEXAS:** D. ANSLEY, Vice-President, Central Trust Company, San Antonio.  
**UTAH:** F. M. MICHELSEN, Cashier Utah Savings & Trust Company, Salt Lake City.  
**VERMONT:** F. G. HOWLAND, Treasurer Barre Savings Bank & Trust Company, Barre.

**VIRGINIA:** H. M. KERR, President Trust Company of Norfolk, Norfolk.  
**WASHINGTON:** W. J. KOMMERS, Vice-President Union Trust Company,  
Spokane.  
**WEST VIRGINIA:** H. A. ABBOTT, Cashier Grafton Banking & Trust  
Company, Grafton.  
**WISCONSIN:** W. H. PURNELL, Secretary North Western Loan & Trust  
Company, Kenosha.  
**WYOMING:** F. G. S. HESSE, President Wyoming Loan & Trust Co.,  
Buffalo.

## **TWENTY-FOURTH ANNUAL MEETING**

### **TRUST COMPANY SECTION**

**AMERICAN BANKERS ASSOCIATION**

**AT ST. LOUIS, MISSOURI**

**September 29 and 30, 1919.**

The first session was held in the Ball Room of the Hotel Statler, on Monday, September 29, 1919, at 2 p. m. John W. Platten, President of the Section, presided.

The invocation was pronounced by the Reverend G. A. Hulbert, D.D., Pastor Kingshighway Presbyterian Church, St. Louis.

The address of welcome was delivered by Breckinridge Jones, president of the Mississippi Valley Trust Company, St. Louis, and known in trust company circles as the "Father of the Section." Mr. Jones in welcoming the delegates and guests, spoke in part as follows:

There is something of vital importance at this time that may be brought to your attention in connection with your meeting in this city, which has for hundreds of miles about it great agricultural interests. In the disturbed condition of labor all over this country, with the disposition of many of the labor agitators to confiscate property, a result sought to be largely accomplished in the Plumb Bill relating to our railroads, there is the declared purpose that the principle that is to be applied to the railroads must apply not only to the railroads but to all other essential industries. If these results are attained, that is, if our railroads and other essential industries are, in effect, nationalized, and the property rights in them are not recognized, the next step will be the practical confiscation of the

farms by a control of the prices of the products of the farm. It is from the farm, where the farmer owns his property, where he recognizes property rights, I believe this country has to largely look for its protection. A member of Congress from an industrial center would have very little chance for re-election if he should antagonize the labor element. But when you get to a representative from a great agricultural district, or to a Senator from an agricultural state, I believe you will find an independence of thought and an advocacy of the fundamental principles of our government, and a determination to uphold them, that will be very well worth your notice. You get that from this agricultural section of the country. As the subject of unrest is the point now so much under consideration, I desire to put out a thought or two on that subject.

A great many of those agitators are saying now that they would like to have a Soviet Government in this country. Do you know that the foundation principle of the Soviet Government in Russia is that no man except one who works with his hands and who does not have another man in his employ shall vote? Only the man that works with his hands and his wife, if she is supporting him, can vote. If he employs anybody else to cook for him or to work for him, being thus an employer, he cannot vote. If he is a professional man and labors with his brains instead of his hands, from the standpoint of the Soviet rulers, he has no vote. In this country, in 1776, we went to war practically over the proposition of taxation without representation, yet these men with this novel idea of government now come along and want to say that property shall have no rights at all. The owner of property, if he owns enough property to have to hire somebody else to help him take care of it or to make it productive, shall not be allowed a vote. That principle will not go with the American people. They may get the laborers and the peasants of Russia to form a party to work together, but I do not believe that that can be accomplished in America. Now, it is difficult to point the difference in principle between a Democrat and a Republican. I do not think it is now a difference in principle at all; it is largely a question of prejudice and tradition. I believe, when it comes to a consideration of the protection of property rights, the property owner, whether he be the owner of a large or small piece of property, and whether it be in the city or the country, will find it will be to his best interest to co-operate with the great agricultural interests of America. It is with that thought that I want to congratulate you in meeting out here in the metropolis of this, the greatest agricultural valley in the United States.

I would like to speak a few words about our advertising. All the trust companies are trying to put out a certain class of educational advertising. We are trying to convince the people of our communities

that it is necessary first to have a trust company service and to do that in a general way before we get down to the point of specifying our particular trust company as the best to give that service. I believe we could make a great saving if we could have a central office, have an officer there or a board that would make a selection of the best advertising that they could find all over the country, arrange it, and put it in shape and then report it back in the section so that each member may get the benefit of the best thought originated by the publicity men or by officers of the trust companies. Not only could this matter be used by the individual trust company, but all the trust companies of a large city could get together and conduct a co-operative publicity campaign. In this way, the public would understand that there was nothing personal in the appeal, but that all the fiduciary corporations of the city were uniting to educate that city in the advantages of the corporate fiduciary.

This centralization of educational effort would have its effect on newspapers and other publications, as well as on the public. For instance, if in St. Louis the trust companies were conducting a co-operative educational campaign, the newspapers of St. Louis might be quite ready, by reason of the paid display advertising, to treat that campaign and the reasons for it and the results of it as news. In precisely the same way, if the Trust Company Section were active in educational publicity all over the country, such items of general interest as it sent out to the editorial departments of newspapers and magazines would deserve space, and in most cases, would get space.

I cannot stop to go into details at this time, but it seems that a logical development of this idea might be for the Trust Company Section to publish advertising matter in magazines of general circulation, which would be a valuable adjunct to the educational and promotional work of every trust department in the country. What we want to do is to get the people everywhere to recognize what we believe, not only as a matter of self-interest, but as a matter of public good, that the trust companies can give better service in the matter of execution of trusts than it is possible for an individual to do. We should get that general idea before the people. I have seen some figures recently of some trust companies in San Francisco and Los Angeles. I believe there only about three per cent of the estates were administered by trust companies. I doubt if it is more than that in this city. As long as that is the case, gentlemen, we are not doing our duty. We are not convincing the people that it is as much to their interest as it is ours for them to patronize trust companies. I express the hope that in the development of the work in the Trust Company Section there is something there that we can get hold of in the way of co-operation in advertising that will be of benefit to us all.

On behalf of the trust companies and banks in St. Louis, and all our citizens, I assure you that it is a great pleasure to have the trust companies of America come here at this time and be our guests. I ask you to judge St. Louis by the cordiality and hospitality that you find here. I thank you. (Applause.)

The reply to the address of welcome was made by Uzal M. McCarter, president Fidelity Trust Company, Newark, N. J., and ex-president of the Trust Company Section. Mr. McCarter, after referring briefly to the circumstances surrounding the invitation to respond to the address of welcome, said:

In behalf of the members of this section, representing as we do trust companies from every state in this Union, I desire to express the deep gratitude of all the delegates here which we would have you convey to the various local committees and the people of this commonwealth for the welcome which we know you extended to us in convention here. When we, the members of this Section, learned that we were to come to St. Louis, we were thrilled to the core. Those of us who had been here before were delighted to renew the old acquaintances which we have made on previous occasions, and those of us who had never been here before were anxious to make acquaintances and to enjoy, as we expect to enjoy—even to the utmost—the famed hospitality for which your city is so famous.

In speaking of present day conditions, Mr. McCarter stated:

We are sailing in an uncharted sea and with the needle of our compass pointing in every direction at the same time, and the lifelong experience, even of an old man, offers no guide or protection to the unknown troubles to which we are going. I feel, my friends, members of the Trust Company Section, that we have a firm duty to perform. I believe it to be our absolute duty when we return to our several homes and resume the management of our several institutions that we as bankers shall do two things. We should preach the propaganda of Americanism with the proper recognition of the constitution and liberties contained in that constitution. I feel that if this country is to continue to hold its premier position among the nations of the world, you and I in our business ramifications have got to preach one hundred per cent. production to the end that we may produce the goods to keep this country's position good. I don't want to take myself too seriously, as I conceive it to be no part of my duty to discuss economic or social questions. I assume that during the progress of this convention these questions will receive full and proper attention and I, therefore, in closing my remarks to you, Mr. Jones, beg again

to thank you for all the arrangements of hospitality that have been prepared for us and to say that we will avail ourselves of them to the utmost and that when we return to our several homes we will be better able to meet the unknown dangers through which we are passing because we have had the privilege of being here in your beautiful city.

Richard S. Hawes, Vice-President of the American Bankers Association, was then invited to address the members, whereupon Mr. Hawes referred to the efforts made during the past year to bring the Association to a higher state of efficiency and usefulness and appealed to the delegates to co-operate whole-heartedly in securing this result.

John S. Drum, Second Vice-President, American Bankers Association, presented to the delegates several suggestions which he believed would greatly improve the usefulness of the Association's work.

## REPORT OF CHAIRMAN OF EXECUTIVE COMMITTEE

EDMUND D. HULBERT

Since the twenty-third annual meeting of the Section, the Executive Committee has held six meetings.

At the first meeting, which was held at the Congress Hotel, Chicago, Illinois, September 24, 1918, your present Chairman and Secretary were elected.

The second meeting was held on December 11, 1918, at the office of the Association in New York City. Aside from items of routine business, the Committee discussed the matter of a change in the form of the Annual Proceedings, after which it adopted the following resolution:

*"Resolved, That it is the sense of this Committee that the annual proceedings of the Trust Company Section, beginning with the 1919 Convention should be published in separate booklet form and sent to all members of the Section as early as practicable following the close of the Annual Convention, and that the morocco bound copies of the proceedings be dispensed with as far as members of the Trust Company Section are concerned, and that the Administrative Committee be informed of the desire of the Trust Company Section in this respect."*

The reports of Sub-Committees were then received, discussed and

acted upon. Special mention is here made of action taken in connection with the Committee on Standardization of Forms and Charges. Mr. J. A. House, Chairman, requested an enlargement of the Committee, in order that a division of the work could be made. A resolution was adopted authorizing the Chairman to enlarge the Committee and divide its work.

On account of the growing importance of the Railroad situation a Special Committee on Railroad Securities, number not to exceed five, was authorized at this meeting.

The third meeting of the Committee was held at the office of the Association in New York, on February 21, 1919, the day following the Annual Banquet of the Trust Companies of the United States. In addition to the consideration of reports of officers and Committees, it was decided through the adoption of an appropriate resolution that no officer of a trust company or bank should be held eligible for membership on the Executive Committee of the Trust Company Section, unless the trust company or bank with which said officer was connected was an Active Member of the Trust Company Section.

At this meeting President Platten introduced the subject of membership of the Second Vice-President of the Association upon the Administrative Committee, after which the following preamble and resolution were unanimously adopted:

*"Whereas, The Constitution of the American Bankers' Association does not provide that the Second Vice-President of the Association shall be a member of the Administrative Committee, and*

*"Whereas, It is the consensus of opinion of this Committee that the best interests of the Association will be served by including the Second Vice-President in the membership of said Committee; therefore, be it*

*"Resolved, That this Committee hereby recommends the preparation and passage of an appropriate amendment to the Constitution of the Association in order to provide for membership of the Second Vice-President of the Association upon the Administrative Committee."*

The question of the removal of the office of the American Bankers' Association to Washington, D. C., was also fully discussed, after which the following preamble and resolution were unanimously adopted by the members present:

*"Whereas, The Committee on Co-ordination of Association activities, created by the Executive Council to unify the efforts and work of the Association, reported to the Chicago Convention in regard to the question of moving the headquarters of the Association to either Washington or Chicago, that in their belief, such a move was not advisable nor practicable at this time, but recommended instead that an office*



be opened as soon as practicable in Washington, in charge of a competent representative as assistant to the general counsel and with such other duties as might be required by the Administrative Committee, which report was unanimously adopted by the Convention, the supreme body thereby declaring its policy and purpose in accordance therewith, and

*"Whereas, The Administrative Committee of the Association adopted a resolution at its meeting in New York on January 23, 1919, giving reasons, more specious than sound, why the headquarters should be removed to Washington, and directing that such resolution be forwarded to the members of the Executive Committees of the respective Sections and the members of the Executive Council of the American Bankers Association, and upon majority vote that such removal be proceeded with, which majority vote, it is confidently believed, has been obtained without due consideration and in deference to the prestige of the Administrative Committee, and*

*"Whereas, In view of the mandate of the general convention that the general offices should remain in New York, such removal cannot with propriety be proceeded with by direction of a lesser authority, but will require contrary action at the next general convention, if then deemed wise and practicable, and*

*"Whereas, Irrespective of the propriety the following reasons demonstrate the soundness of the decision of the general convention that removal to Washington is at present neither wise nor practicable, but the purposes of the Association will be best served by the establishment of a branch office there as recommended by the Committee on Co-ordination, viz.:*

*"1. The Association is a financial, not a political organization, and New York, where its headquarters are located, is the financial centre of the Nation;*

*The largest Federal Reserve Bank and the largest financial institutions are located in New York;*

*"2. The greater part of the membership necessarily visit New York in connection with financial business and in far greater numbers than in any other city. The advantages to them of the facilities of the Association offices and the advantages to the Association of their personal touch in connection with Association affairs and their advice on matters of banking policy and practice would be lost in a large degree by such removal;*

*"3. The Association through its Federal Legislative Committee working from headquarters in New York with occasional visits to Washington, and working through its members in every state, has been increasingly successful in a legitimate way in procuring the serious attention and action of Congress upon matters of law and legislative policy affecting banking interests, and the Association has*

acquired a reputation of working for sound banking and the public welfare and not for selfish ends. There is grave question whether this favorable standing would not be lost and the dignity and weight of influence of the Association minimized and discredited by removal of the main headquarters to the Nation's Capitol. Too much familiarity breeds contempt. The public charge made through the newspapers and impressed upon the minds of the people, that a great organization of bankers was camped as an organization of lobbyists at the seat of the national government, however far from the truth, might be disastrous to its future effectiveness;

"4. Congress only meets certain months in the year, and for the gathering of information and activities in connection with legislation, as well as for presenting matters for attention to the various departments of Government, a branch office as recommended by the Committee on Co-ordination, maintained in a quiet and unobtrusive way, would answer every purpose. Anything more would be harmful rather than beneficial. More effective legislative work is done away from than at the Nation's Capitol.

"All the interests of the national banks which call for a representative in Washington, as well as all banks organized under state charters, can be effectively handled by a representative in a branch office;

"5. From the standpoint of the state institutions who favor continuance of their state charters and regulations, the thought suggests itself that the maintenance of the Association headquarters at the National Capitol might have a tendency toward nationalisation of all state institutions and the gradual extinction of state banks by the subtle influence of the national atmosphere upon the Association itself, which is the source and mouthpiece of their aims and policies.

"6. Aside from matters of Federal Legislation, interpretation of laws and departmental rulings, there are many other activities of the Association—protection against criminals, education, insurance, improvement of banking methods, publication of the Association Journal—as to which there is absolutely no reason for removal to Washington, and in the promotion of which the Association is immeasurably better equipped at its present location than elsewhere, and

"Whereas, The proposed removal will be especially detrimental to the Trust Company Section for the following reasons:

"1. The work of the Trust Company Section, which is constantly reaching a higher state of efficiency, cannot be effectively prosecuted if removed from its present location.

"2. A close personal relationship has been developed through the contact of members with the Secretary's office while visiting New York from all parts of the country.

"3. The Section's Committee on Federal Legislation has demon-

strated its ability to effectively prosecute its work as at present constituted and without any taint of accusation relative to lobbying.

"4. The Section's Committee on Publicity, through which substantial savings have already been effected for member companies in all parts of the country and through whose program of action when more fully executed will be enabled to effect savings of many hundreds of thousands of dollars for members, and greatly stimulate fiduciary activity in all parts of the country, and the fullest measure of help for the prosecution of this Committee's program can only be successful through the kind of assistance obtainable in New York.

"5. The Committee on Co-operation with the Bar, which was created at the last Convention of the Association at Chicago, has formed facilities in New York City, which, if disturbed, will seriously impair the usefulness of its work which is of vital importance to trust companies in every state in the Union.

"6. The Chairmen and members of other important Committees of the Section, during their frequent visits to New York are enabled to further the work of their several Committees through a conference or reference to important papers on file in the Section's office, all of which contact would be destroyed if the offices were removed to Washington, and

*"Whereas, For the above reasons as well as for minor reasons of inexpediency in losing a large part of a trained office force, the expense and inconvenience involved in such a removal of the entire Association headquarters, and above all because we feel that the hasty decision for removal has been based upon insufficient consideration and that the entire membership of the Association should not be deprived of a voice in the matter; therefore, be it*

*"Resolved, That it is the consensus of opinion of the Trust Company Section of the American Bankers Association that no further action be taken in respect to the contemplated change until the next annual session of the general convention which is the supreme body of the Association; and be it further*

*"Resolved, That copies of this resolution be forwarded immediately to the President and Vice-Presidents of the Association, the members of the Executive Council and members of the Executive Committees of the various Sections, and that the Secretary of the Trust Company Section be instructed to procure publication of this resolution in the next issue of the Journal of the Association and forward the same to all members of the Trust Company Section."*

That the action of the Executive Committee in respect to the removal of the Association offices was in accord with the views of members is evidenced by the large number of letters received from members approving the subject matter of the resolution.

The fourth meeting of the Committee was held at the Greenbrier Hotel, White Sulphur Springs, West Virginia, Monday, May 19, 1919, at which time the resignation of W. L. Hemingway as a member of the Committee was presented and accepted, and an appropriate resolution in recognition of his service adopted.

Through the adoption of another resolution the approval of the Committee was given to the policy adopted by President Platten in reference to reporting to the Committee the business transacted at the several meetings of the Administrative Committee of the Association, of which he was a member, and calling upon future presidents of the Section who would serve upon the Administrative Committee to continue this practice.

The question of the publication of the annual proceedings of the Association and the expense incident thereto was again discussed and the sense of the Committee appeared in the following resolution:

*"Resolved, That it is the sense of this Committee that the publication and distribution of the annual proceedings be discontinued and that the Executive Council be so advised."*

The fifth meeting of the Committee was held in the Greenbrier Hotel, White Sulphur Springs, West Virginia, on Wednesday May 21, 1919, for the purpose of filling a vacancy created in the Committee through the resignation of Mr. W. L. Hemingway and also for the purpose of creating a Special Committee on Legislation to act jointly with similar Committees appointed by the Savings Bank and State Bank Sections of the Association in the formation of a joint Conference Committee to act under the proposed amendment to the Constitution of the Association, permitting separate action in Federal Legislative matters by State-chartered institutions.

At this meeting Mr. J. A. House resigned as a member of the 1921 class and was re-elected as a member of the 1920 class, to fill a vacancy caused by the resignation of Mr. Hemingway. Mr. Theodore G. Smith was thereupon elected a member of the 1921 class to fill a vacancy caused by the resignation of Mr. House.

Through the adoption of an appropriate resolution a Special Committee on Legislation, composed of Willis H. Booth, Frank W. Blair and A. A. Jackson, was created.

At the sixth meeting of the Committee, held this morning in this room the following business was transacted:

Committee reports were heard, discussed and approved for presentation at this meeting.

At a joint meeting of the Executive Committee with the State Vice-Presidents held at 11:30 this morning the progress and development of trust companies in many states were discussed.

A gratifying increase in our membership has been recorded, and our

expenses have kept within the appropriation. Both of these items will be treated in a separate report.

The Sub-Committees of the Section are actively engaged in work pertaining to their particular spheres of activity, the results of which will be revealed in reports to be submitted at this meeting.

A continuous correspondence has been carried on with the Secretary and frequent visits have been made by your Chairman to the Secretary's office. This has enabled a close contact to be maintained at all times and matters presented for decision to be handled with promptness. Two communications have been recently addressed to members by your Chairman in reference to subjects of interest at this time to trust companies. One letter sent to all members made inquiry regarding the general plan being followed in reinstating the returned soldier or sailor and the necessity for dispensing with the services of those who have been filling vacancies caused by war necessity. The other letter was prompted by inquiries received at the Secretary's office regarding the operation of pension funds and welfare work, and was sent to banks and trust companies known to be operating pension funds or promoting welfare work for their employees. Several hundred replies were received and as a result of these replies articles bearing upon the subjects mentioned were published in the Journal of the Association and sent to other financial publications throughout the country. In common with other lines of endeavor, trust companies are necessarily turning more and more attention to the proper development and welfare of the men and women whose service is being purchased from day to day in the maintenance and upbuilding of these institutions.

My thanks are due the Secretary of this Section for the able and efficient manner in which he has conducted his office. He has been untiring in his work and has shown constructive ability of the highest order. He is entitled to a large share of credit for the accomplishments of the past year.

## REPORT OF THE COMMITTEE ON LEGISLATION

HENRY M. CAMPBELL, CHAIRMAN

During the past year there has been nothing of special interest to the trust companies proposed by way of new legislation with the exception of a provision relating to fiduciary powers in a bill recently introduced in the United States Senate by Senator Edge of New Jersey known as Senate Bill 2472.

This is a bill authorizing the incorporation of Federal banks under the supervision of the Federal Reserve Board, for the purpose of carrying on an international or foreign banking business. The in-

tention of the act is that such corporations when organized shall be restricted to carrying on business exclusively in foreign countries, it being expressly provided that they shall transact no business within the United States, except such as is incidental to their foreign business.

Some question has arisen whether the provisions safeguarding the interests of domestic banks are sufficiently definite, particularly regarding the receiving of deposits in this country and the provisions covering the borrowing and lending of money on real and personal securities. But, as these matters are of general interest to all members of the Association and are not particularly confined to trust companies, this Committee has not undertaken to deal with them, especially as other appropriate committees have them in hand and are giving them efficient attention.

There was one clause of the bill, however, as originally drawn which distinctly fell within the purview of this Committee. Section 6 provided that banks organized under the proposed law might exercise all of the fiduciary powers specified in Sec. 11 (k) of the Federal Reserve Act which the Federal Reserve Board is authorized to confer upon National Banks.

It has been the constant endeavor of this Committee to safeguard the administration of trusts in such manner as to give them complete effect in accordance with their true intent and meaning. To accomplish this, two things are especially necessary; first, complete segregation of the trust properties and functions from all other kinds of business, and, second, their construction and administration in accordance with local laws and customs.

Trusts are fundamentally different from general banking and a commingling of the two will almost inevitably result in trouble, and as trusts are peculiarly local in their nature and the rules governing their administration vary in different localities in accordance with local requirements, no general law operating uniformly throughout the country can be satisfactory. No such general law has been attempted and if attempted by Congress would probably be unconstitutional. The United States Supreme Court sustained the power of Congress to confer trust powers upon National Banks only to the extent that like powers are exercised by State Corporations and under the same limitations.

Having these considerations in mind the Committee in conjunction with the Association Committee on Legislation called the attention of Senator Edge and the Senate Committee to this feature of the bill and pointed out that it was not only unessential to the general purpose of the bill and undesirable, but was also of doubtful validity. It was also suggested that to retain the clause might arouse hostility to the bill as a whole, which might otherwise be avoided.

Governor Harding of the Federal Reserve Board, in a letter accom-

panying the report of the Senate Committee on Banking and Currency, to which the bill had been referred, also called attention to the clause.

As the matter now stands Senator Edge, who introduced the bill agreed to the elimination of the clause and it has, at the time of making this report, passed the Senate with the fiduciary section stricken out.

The Committee will continue to keep track of the bill and will give such further attention to it as may be necessary.

## REPORT OF COMMITTEE ON PROTECTIVE LAWS

A complete report of your Committee on Protective Laws would involve a lengthy recital of events, due to the meeting of forty-three State Legislatures. It is the purpose to bring to your attention only those features of our work bearing upon Bills and legislative situations of primary interest to Trust Companies.

Certain Bills have been common to several states. They are as follows:

- a. Those permitting membership in the Federal Reserve System, investment in capital stock of Federal Reserve Banks, changing reserve requirements to agree with the Federal Reserve Act, etc.
- b. Bills granting trust privileges to State Banks in view of the wide scope of powers given under the Phelan Bill.
- c. Bills aimed at the "Practice of Law" by Trust Companies, and in some states forbidding the further exercise of fiduciary powers.

A brief reference to certain Bills, other than those above mentioned, based on reports received from State Vice-Presidents, follows:

(Explanation of legislation in separate states omitted for lack of space.)

A resumé of Bills introduced in the various State Legislatures shows that many legislative oddities were manufactured for passage by the various State Legislatures. This indicates clearly the advisability or the necessity for watching more closely than in the past Bills introduced in all States.

The method of carrying on the work of the Committee has been similar to that used in preceding years, namely, assigning of certain states to different members of the Committee, they in turn to work through the State Vice-President of the Section in each State.

The co-operation of the Secretary and General Counsel at the Association Headquarters in New York has been availed of throughout the year, and the work has been done in co-operation as far as possible with the members of the state legislative counsel representing the Association in such state.

Several emergencies arose throughout the year, necessitating immediate action, and your Committee reports with pleasure that requests for prompt co-operation, either from Association Headquarters in New York or by Trust Company or bank men throughout the country, have met with ready response.

Respectfully submitted,

W. T. KEMPER,  
F. J. H. SUTTON,  
LUCIUS TETER,  
JOHN STITES,  
TOM F. RODGERS,  
THEO. G. SMITH, *Chairman*.

Festus J. Wade, president of the Mercantile Trust Company, St. Louis, Mo., and former president of the Trust Company Section, was invited to address the delegates, and spoke in part as follows:

First, let me extend to you a most hearty welcome to this little old town. Secondly, let me suggest to you a thought that ought to be carried through in the deliberations of the Convention, one which I know is dear to all our hearts and has yet been unsolved. And that is the popular, or rather unpopular situation in regard to the cost of living. We attribute that situation to a great many causes; some of us will say it is owing to the high cost we are paying for labor; others will claim that it is a natural unrest after the war; others will claim that because we have become so suddenly rich as a nation we have forgotten our duty to the world. My own opinion is—and that is what I would like to have you consider in your deliberations—that the fundamental cause of the high cost of living that prevails throughout the world is largely, and very largely, due to the state of foreign exchange market in America. You will hear at times, men express themselves with pride and joy at the wealth and strength, financially particularly, of the United States of America. They will point with pride to our great hoard of gold, but they have forgotten that that must be discontinued or we will find what the high cost of living means in this country, by a recession of business. Formerly, when a commodity was sold or exported to Europe, there were only two differentials between the cost of that raw material in America and Europe. One was the cost of transportation to and from Europe—to Europe and back again after it was manufactured; and, secondly, the cost of the exchange, interest charge. What happens now? Why is it that continental Europe is rioting? Why is it, occurrences over there aren't just as they are here? It is because if a Frenchman wants to buy a bale of cotton in America to export, manufacture and ship back here, he must



pay fifty per cent more for that bale of cotton than the American manufacturer pays. You say that is our benefit: Yes, true, it is our benefit. But it is a differential that they cannot stand, and they are our best customers. Take the high cost of cereals—wheat, for instance. While we all complain and say that we are paying too much for the products of the earth that we are purchasing in this country, yet, again, through the operation of exchange in Germany and in Italy and in France, that same bushel of wheat costs them \$3.00 as against our \$2.20. Take our gold situation: I remember the breaking out of the war between European nations, before we went into it, in the early days, we were all very much disturbed because gold was flowing in Europe. And we emptied the coffers of our banking institutions and sent the magnificent sum of one hundred million dollars to New York to stem the tide. Now, that more than three billion five hundred millions of gold in the treasury of the Federal Reserve Bank systems of this country is infinitely a greater menace, in my judgment, than was the lack of the gold in the panic of 1907, 1893, or the early panic in 1914. What will happen if we continue to gather all the gold in the world within our borders? When the only known exchange in the settlement of balances between nations is gold? They haven't the gold; it is manifest they cannot settle in that medium of exchange. And unless you awaken to the situation that we are now confronted with, we may find another medium of exchange, and our great hoard of gold will not look so valuable as it does now. Another cause of the unrest over the world is the fact that all of those European nations know they are laboring under a most staggering debt. They owe us sums so great that no man can figure it now without taking his pencil out and jotting off the decimals. And on top of that they know that they owe us, this great, rich nation, ten billions of dollars on demand. What is the remedy? Lord! If I only knew, gentlemen, I would be the happiest man in America to give it to you. But I will make just a few random suggestions that I have in mind.

If I had my way, I would say to Europe, "The money you owe us you can pay back in installments for fifty years," because, in the last analysis, I don't think they owe us one dollar; they saved civilization for the world while we waited. (Applause.) If I had the power, I would take a billion dollars or a billion and a half of gold that is lying idle in the vaults of the Federal Reserve banks and treasury of this country, and I would lend it to Europe; I would lend it to the great countries of Europe; I would encourage all of Europe, even Germany—to go back to industrial activities, to industrial life, to the end that they might be rehabilitated and to the end that we may continue to conduct business with them.

I was one of those in the heat of passion on the days that the war was on, and I almost took an oath I never would buy anything made

in Germany. But look what a foolish, childish notion that is. They must pay for the horrible damages they have committed, and we must give them the means to work with in order to be able to pay. Failing in that, we have fooled ourselves. Just think, gentlemen, what is the value of the gold that we have locked up? We point with pride that under the Federal Reserve System of our United States all our notes have 50, 60 and 75 per cent reserve. Again, if I had my way, I would put that reserve to forty per cent, nay, down to thirty-five per cent, even thirty per cent, in order that the commerce of the world might start up again. And the trust company officials represented here, particularly your Executive Committee, should take up that problem, should find a solution for it, or at least make a constructive suggestion to the powers that be in Washington, to the end that our commerce may continue in prosperity as it is at present. (Applause.)

### REPORT OF COMMITTEE ON PUBLICITY

Since the Chicago Convention, the Publicity Committee has been collecting and disseminating information bearing upon all phases of advertising, publicity, and new business.

Bulletin No. 2 has been issued and sent to members. It has met with the same hearty response accorded Bulletin No. 1. Some of the written comments are as follows:

"Very much impressed with the samples of copy sent out in your last Bulletin. We believe this is the kind of co-operation necessary among trust companies."

"It is what I have been looking for, for a long time."

"It is something that the busy man who is not an expert on advertising absolutely needs."

"Very helpful and we thank you for sending it."

Accompanying Bulletin No. 2 were three enclosures requesting additional printed matter and information bearing upon: 1. Safe Deposit Advertisements. 2. Voluntary or living trusts and the safe-keeping of securities. 3. Original letters from testators having named trust companies, answering the question "Why I Named a Trust Company in My Will." The material received in reply to these requests will be properly prepared for early publication.

In a recent issue of the Journal of the Association several pages were devoted to presenting a story and explanation of "Good Will" copy which is beginning to enter quite largely into trust company advertising. Your Committee strongly recommends that more attention be given to this form of advertising by trust companies which calls attention in a broad-minded way to public and civic matters. Trust companies throughout the country are genuinely interested in the up-building of their communities and with this in mind the Com-

mittee is preparing information bearing upon this subject for the use of members at an early date.

Co-operative advertising campaigns featuring fiduciary facilities are also engaging the attention of the Committee, in order that this branch of advertising, which has been so successfully conducted in Cleveland, Los Angeles, New Orleans and other cities may be more fully developed.

Considerable testimony regarding savings effected for members has been given, and a large number of letters have been received, and personal calls made at the Secretary's office, seeking help in the establishment of new business and publicity departments, as well as suggestions bearing upon the maintenance of this work. Under the direction of the Committee there have been prepared a large number of comprehensive plans to fit the needs of particular companies in carrying on this work.

At meetings of trust company men held in Colorado, Nebraska, and Iowa, the work of the Committee was presented during the months of March and April. Throughout the month of June the work of the Committee was presented at bankers' conventions and before groups of trust company men in the States of California, Oregon, Washington, Idaho, and Iowa.

As a result of presenting the work of the Committee at a meeting at Seattle, Washington, in June, 1919, the Trust Company Section of the Washington Bankers' Association has prepared a booklet containing 100 advertisements designed to fit their particular needs and conform to the restrictive laws under which they are compelled to operate. A large number of advertisements published by the Committee were used in this booklet.

The use and publication of the advertisements, distributed through the Bulletins has been nation wide and your Committee recommends and strongly urges that an adequate appropriation be secured for a more complete development of this work as the field for real service to members through this channel is undoubtedly very wide and should receive the best possible support in order to properly assist in the development of trust company business throughout the country.

I wish to add while there are four members of our Committee there is also a silent member whose endeavors and ability as a trust company publicity man have made possible the results which have been accomplished. That silent member is our Secretary, Leroy A. Mershon, and I desire to here say that the Committee is deeply grateful to him for his labors in furthering this work.

Respectfully submitted,

FRED W. ELLSWORTH,

A. H. COOLEY,

E. F. FEICKERT,

JAMES M. PRATT, *Chairman.*

Following the reading of the above report Geo. W. Holmes, secretary First Trust Company, Lincoln, Neb., inquired regarding the possibility of co-operation with the Financial Advertisers' Association, whereupon the Secretary informed him that preliminary inquiries were being made with a view to a closer co-operation.

## REPORT OF THE COMMITTEE ON STANDARDIZATION OF FORMS AND CHARGES

To members of Trust Company Section of American Bankers' Association: Those perplexing and vital problems confronting the average trust company incidental to a determination of fair and adequate charges for trust services, led to the appointment of a committee by the Trust Company Section of the American Bankers' Association to make a careful study of, and report on, trust company charges.

It was expected that this committee might be enabled by such study to present a standard, or at least a practical basis for determining fees.

It was generally realized that there existed no uniform or accepted basis of compensation, and that there existed a great divergence in charges, not only between various sections of the country, but also between trust companies in the same locality. Likewise, it was common knowledge that the fees of many of the trust companies were inconsistent, and varied from time to time, and seemed to be fixed to meet the requirements of the occasion rather than being computed upon logical and business-like schedules of uniformity.

It was hoped that with schedules carefully formulated after exhaustive study, substantial benefits would accrue, not only to the trust companies of the United States, but to the clientele of the companies as well.

Your committee has made its investigation and study, and herewith presents its report, and accompanies the same with twelve schedules and sundry notes in explanation thereof.

These schedules are based upon the following determining factors:

(a) That a standard schedule must be fixed upon a basis that the average duties involved and responsibilities assumed are those usual in the average trust of its kind, as administered in the average community, with efficient service rendered and adequate skill employed.

(b) That the compensation must be fair and reasonable for the service rendered, and advantageous to the patron as well as remunerative to the trust company.

(c) That exorbitant charges retard or prevent the growth of trust

business, while inadequate charges eventually result in a deterioration of the quality of service rendered, which in turn reacts unfavorably upon the expansion of trust business.

(d) That a uniform or standard method of charging throughout the country should tend to stabilize the trust business and create a better public opinion of the value of trust service.

(e) That as a guide or indication of general trust costs the schedules should serve as a deterrent to that evil now prevalent in many communities, namely, "injurious price cutting," which practice inevitably results in inefficient trust service.

To acquire the necessary information the committee sent a questionnaire to hundreds of leading and representative trust companies in all parts of the United States, so prepared as to elicit the facts desired and to develop as much detailed information as possible. The returns, which are, of course, confidential, revealed the greatest variation in the nature and amount of fees for any given service, and disclosed an entire lack of any consistent or scientific basis of compensation. In a few cases the fees were unreasonably high, but in most instances the returns showed the fees to be wholly inadequate to enable the average trust company to give complete and efficient service.

The information thus received was collated, tabulated and carefully analyzed. Each service was given individual consideration in order to determine as nearly as might be the average amount of time and degree of skill required, as well as the responsibility assumed by the trustee. By means of this process the committee endeavored to arrive at a basic schedule of fees for each trust service, which should be adequate and fair, both to the company and to the patron, and which would bear some logical relationship to the elements which enter into the fixing of prices for fiduciary services, namely: the amount and nature of the work involved; whether it be clerical or require a high degree of professional skill; the nature and degree of responsibility assumed by the company; and the value of the service to the patron.

The returns were tabulated in geographical divisions as follows: Eastern, Central, Southern and Western, but the result showed no special characteristics incident to any one of these divisions, except that the Pacific Coast trust companies quite generally followed the California fee schedule.

In formulating the schedule of charges submitted by it, the committee fully realized the difficulty of fixing a standard which could be used by trust companies in different localities and which would apply, with equal fairness, to the great variety of circumstances surrounding the individual trusts. It was not the aim of the committee to fix an iron clad and arbitrary schedule which should be rigidly adhered to in every instance, regardless of the circumstances of the particular

case. It was realized that owing to the multiplicity and variability of the elements involved in the determination of these charges, it was impracticable to do more, at the present time, than to establish a basis which could be used as a guide, and varied from as circumstances and customs might require, to meet the requirements of any given trust.

The committee desires to express its belief that an adherence to these schedules, as nearly as may be possible, after making the necessary modifications to comply with local usage, laws and customs, will have, among others, the following beneficial results:

(a) It will enable small trust companies with inexperienced officers to fix fees on a basis of reasonable profit, and thereby eliminate the features of experiment and guesswork.

(b) It will tend to eliminate, among the larger trust companies, the injurious practice of price cutting to a point below the reasonable cost of service.

(c) It will provide all banks now organizing trust departments with a basis or guide to direct them in their early endeavors in the trust business to the end that they may, by its use, be able to conduct their business upon a remunerative basis from the very beginning, and thus be enabled to attain, more quickly than might otherwise be possible, those standards of efficient service maintained by the State trust companies, and to preserve in the public the confidence which is now reposed in these companies.

(d) It will enable trust departments of banks now used only as feeders of other departments to become self-supporting and reasonably profitable, many such departments being now operated at a loss in so far as compensation for their specific functions is concerned.

(e) It will develop in the public a realization that the trust business is conducted upon efficient and scientific lines; that the compensation charged for fiduciary services has been carefully computed and ascertained to be fair and reasonable in all cases; that all patrons are treated fairly and alike, regardless of the nature or volume of their business.

(f) It will enable attorneys to advise clients as to the approximate charge of proposed trusts and promote a mutually harmonious and co-operative relationship between the attorney and the trust company.

(g) It will enable the trust companies in various districts and localities in the United States to compete keenly and fairly with one another on a basis of efficient service and skill, rather than upon a basis of cheapness of price.

(h) It will enable trust company patrons to proceed with some degree of assurance as to the cost of service which their affairs require.

The committee takes this opportunity to call to the attention of

the convention the importance of the factor of charges in relation to the future growth of trust business. It is an axiom that no business can develop and expand upon a substantial and permanent basis, unless the compensation accruing from the same is both fair to the patron and reasonably profitable to the business. The trust business in the United States is practically in its infancy. Its future depends upon the quality of service which the trust companies may be able to render to the public.

The possibilities for the future growth and expansion of the business can hardly be realized or stated, if the companies continue in the future as in the past, to render a useful, skilful and efficient service to the public. The maintenance of a high standard of service depends, to a large extent, upon the adequacy of the compensation received by the companies. It therefore becomes a matter of vital necessity to ascertain the cost of trust service to the companies, and to formulate a schedule of charges which will enable the trust companies of the country, not only to maintain their present efficiency, but to increase the scope of their activities and to improve the quality of the service now rendered by them.

The schedules and explanatory notes follow.

Respectfully submitted,

GEORGE D. EDWARDS,

JOHN H. COVERLEY,

R. L. SHEPPARD,

J. A. HOUSE, *Chairman*.

L. H. Roseberry, trust attorney Security Trust & Savings Bank, Los Angeles, Cal., offered the following resolution, which was unanimously adopted:

*"Whereas*, The subject of standardizing fees for corporate fiduciary service is a matter of great importance to the trust companies of the country, and no action thereon should be taken at this time which will bind the section and its members to any fixed system of compensation,

*"Therefore, Be It Resolved*, That the report of the Committee on Standardization of Charges be accepted, that the Secretary of the Section mail a copy of the schedules to each of the members of the Section, that the members be requested to give the schedules careful study and trial, that the Committee be continued for another year, and that the members recommend to the Committee such changes and modifications as may seem advisable to them and that the Committee make an additional or supplementary report at the next annual convention."

## COMMITTEE ON CO-OPERATION WITH THE BAR

A verbal report for this Committee was presented to the Section by L. H. Roseberry, of Los Angeles, Cal., in the absence of the chairman of the Committee, Francis H. Sisson, vice-president Guaranty Trust Company of New York.

Mr. Roseberry explained to the members the investigations and compilations prepared by the committee during the past year and also brought to their attention the subject matter of a resolution adopted at the Conference of State and Local Bar Associations, held at the Convention of the American Bar Association in Boston, on September 2. In the resolution, the members of the Bar recognized the efforts being made by the Trust Company Section Committee and also recommended that all instances of encroachment by trust companies upon the prerogatives of the legal profession be called to the attention of the Trust Company Section throughout the current year. The resolution also called for the creation of a special committee to prepare a brief defining the "practice of law" by laymen or lay agencies.

Mr. Roseberry urged the members in attendance to give careful attention to the wording of advertisements, in order that they should not knowingly or inadvertently advertise the drawing of wills by trust companies, which, from the investigation, appeared to be the major cause for complaint by the lawyers generally. Following is a copy of the resolution adopted at the Convention of the American Bar Association:

*"Resolved, That it is the sense of this meeting that it is in the interest of society that the intimate and direct relationship of attorney and client shall be preserved, and that corporate or lay practice of law is destructive of that relationship and tends to lower the standard of professional responsibility;*

*"Resolved Further, That trust companies, while performing proper and legitimate functions of a business and fiduciary character are not constituted or organized for the purpose of furnishing legal advice to clients—drawing wills or furnishing legal services;*

*"Resolved Further, That the efforts of the Trust Company Section of the American Bankers' Association to eliminate evil practices on the part of trust companies be encouraged and the effort to co-operate with the bar be cordially welcomed;*



*"Resolved, To that end, that we recommend to state and local bar associations that they bring to the attention of the Trust Company Section of the American Bankers' Association any evil practices of trust companies or bankers of which they are aware in order that the bankers' organization may, like the lawyers' organization, purge its ranks of wrong doing or error;*

*"Resolved Further, That a special committee of six be appointed to prepare for the use of state and local bar associations a careful brief of what constitutes practice of the law and what constitutes unlawful and improper practice of the law by laymen or lay agencies, and that said committee report at the next conference."*

Upon motion by Gen. Wm. C. Heppenheimer, president Trust Company of New Jersey, Hoboken, N. J., which was duly seconded and carried, the Committee on Co-operation with the Bar was continued throughout the year 1919-1920.

## REPORT OF COMMITTEE ON FIDUCIARY PROTECTION FOR MEN IN SERVICE

This Committee, appointed at the last Annual Convention of the Trust Company Section, held in the City of Chicago in September, was instructed to undertake the duty of providing some practical methods whereby Trust Companies throughout the United States could be of greater service to men about to be called to the colors under the operation of the new draft law. The Committee was appointed on the last day of the session and some of the members could not be reached before they had departed for their respective homes. As a result a little time was consumed in determining upon a program as all of the deliberations and conclusions of the Committee in respect thereto had to be settled by correspondence.

The Committee eventually agreed upon the following course of procedure:

First,—To send out a general letter to all members of the Section stating the purposes and aims of the Committee.

Second,—To prepare several sample advertisements which would effectively set forth the various services which Trust Companies could render to men about to join the Army and Navy and to distribute these advertisements to Trust Companies, with the suggestion that the same be displayed from time to time in their respective communities through the medium of local newspapers or by circular.

Third,—To effect some sort of a working plan with the American Bar Association whereby there would be complete co-operation be-

tween Trust Companies and attorneys in reference to the preparation of wills for enlisted men and those about to enter the service.

Fourth,—To provide some means of communication for effectively reaching men in camps and cantonments in order to bring to their attention the services which Trust Companies could render them in reference to the care and management of interests not arranged for before leaving home.

Fifth,—An ultimate investigation of present methods for rendering financial assistance to the men over-seas, with a view of determining whether Trust Companies could supplement this service in any practical and efficient manner.

Your Committee realized that it would, of necessity, have to move rapidly if it were to be of any practical assistance because men were going out to the camps from their respective communities almost daily to take the places of men who were being sent over seas.

It is found expedient and practical to combine the first two items of the above program of procedure. A four-page circular was prepared which set forth the purposes and aims of the Committee at some length. The back page of the circular contained two suggested advertisements to be used by Trust Companies. This circular was sent to every member of the Trust Company Section and special attention was called to the desire of the Committee for assistance and helpful suggestions. It especially requested samples of advertisements, booklets or form letters which were being used in furtherance of the service which the Committee was exploiting. The Committee received numerous letters in response to this request, from Trust Companies all over the United States, in which the proposed work of the Committee was commended and pledges were made to assist in developing the work in every possible way. Various forms of newspaper advertising, booklets and circulars also accompanied these letters, and these would have been very helpful to the Committee had its work continued.

In endeavoring to carry out the third item of its program the Committee found that the American Bar Association had already provided means in each community for rendering legal aid to men about to enter the service of their country through the agency of an organization known as a Legal Advisory Board. The members of this Board consisted of well-known local attorneys who volunteered their services free of cost, not only to assist drafted men in making out their questionnaires, but also to draw the wills of these men and give legal advice in reference to their business or personal affairs. The Committee also found that this local Legal Advisory Board was also co-operating with the Military Relief Division of the Red Cross in furnishing legal aid to men in camps and cantonments where it was required.

A great deal of correspondence followed between the members of the Committee in reference to the inauguration of some practical method which would permit Trust Companies to co-operate with the above mentioned organizations. Prominent attorneys were consulted, as well as Officers of the Red Cross, and as a result the Committee finally decided that about all that Trust Companies could do, in furtherance of the service which was already being rendered to the enlisted man along this line, was

First,—To prepare a poster setting forth, in detail, the service which a Trust Company could render to an enlisted man, these posters to be displayed in the headquarters of all Draft Boards in every city and town.

Second,—To furnish, to the American Red Cross, a complete list of those Trust Companies in the United States which would undertake to help men in the service by assuming custody and management of property interests where such men had left home without having made proper or satisfactory arrangements therefor. This list was to be sent to the officer in charge of the Military Relief Division of the Red Cross in every camp, cantonment and training station in the United States, together with a letter urging such officer to advise the soldiers and sailors, who might need help, that a letter written to any Trust Company selected from the list, in or nearest to his home city or town, would immediately bring that Trust Company to his aid and that his affairs, no matter how small in volume, once placed in the custody of such Company would receive the same careful consideration as would be given to the affairs of its most valuable customer.

Before the Committee had time to carry out this part of its program the Armistice was signed and it at once became apparent to every one that peace would eventually follow. Almost immediately after the signing of the Armistice, our Government announced that no more men would be called under the new Draft Law and that, as soon as possible, the men in camps, cantonments and over-seas would be released from active duty and demobilized.

The rapid sequence of these events naturally made any further activity on the part of the Committee, along the line of its proposed efforts, seem wholly unnecessary. If no more men were to be called into service and if those already in the army and navy were to be returned to civil life as quickly as possible, surely the very purpose, for which the Committee was created, no longer existed.

The question might properly be asked: "What about the men who remained in service over-seas?" The Committee gave considerable thought to this matter and concluded as follows:

That it would not be able to offer anything constructive in the way of extending Trust Company service to men over-seas. The

Red Cross, Y. M. C. A. and various departments of the Government, organized and conducted solely for the convenience and comfort of men in France and elsewhere, so thoroughly anticipated every want of the soldier that it was the conclusion of the Committee that it could not be of any effective service. Most of the men who went out on the first draft calls or volunteered were men of very small property accumulations and, naturally, any service which Trust Companies could offer to them would be of no general interest. Those men who were customers of any particular bank prior to the war, looked for financial assistance and advice where they had been accustomed to doing business.

Furthermore, the Committee did not see, with any degree of clearness, how Trust Companies could be generally helpful to the soldier returning from camp, cantonment or battle line unless he was disabled and in need of advice in reference to the conservation of money which he received from the Government on account of such disability. The same thought applied to those families that received life insurance on account of the death of some of their soldier relations.

In view of all these circumstances the Committee decided to submit a report at a meeting of the Executive Committee held in New York City, last December, and request, that if the Officers of the Section agree with the conclusions herein set forth, that there were no further functions for the Committee to perform, that it be disbanded forthwith.

At the meeting of the Executive Committee the report was accepted and a resolution adopted approving and commending the activities set forth herein thus relieving the Committee of further responsibility.

Respectfully submitted,

F. W. ELLSWORTH,  
GEORGE W. HOLMES,  
ARTHUR V. MORTON,  
H. C. ROBINSON, *Chairman*.

## REPORT OF COMMITTEE ON RAILROAD SECURITIES

LYNN H. DINKINS, CHAIRMAN

While your Committee has had no formal meeting as a whole, the individual members have given careful thought and study to the various plans submitted bearing on the solution of the railroad problem and to the several Acts that have been introduced in Congress.

The Committee does not feel that it is advisable at this time to advocate any particular plan, as it feels the situation is in too forma-

tive a condition to warrant taking a definite position, and asks that it be continued so that when the situation clears it may be able to recommend to the Section the approval of such plan as seems advisable.

## REPORT OF SPECIAL COMMITTEE ON LEGISLATION

### WILLIS H. BOOTH, CHAIRMAN

The Special Committee on Legislation was created at the spring meeting of the Association, held at White Sulphur Springs, West Virginia, May 21, 1919. The resolution under which it was created assumed the formation of similar committees by the Savings Bank and State Bank Sections in order to permit of concerted action by special committees in respect to combating or furthering Federal Legislation affecting banks and trust companies operating under State charters.

Similar committees were appointed by the Savings Bank and State Bank Sections, and all formed into a joint advisory committee of nine, which awaits an amendment to the by-laws of the association in order to be clothed with the proper authority for action.

Your chairman was selected as the chairman of the joint committee, and as such, has addressed the members of the joint committee in reference to bills pending in Congress, and in an informal manner has contributed some thought upon these matters to other committees of the association actively engaged in watching these particular bills.

It is hoped that the full support of the members of this section will be given to the contemplated change, in order that State institutions may be enabled to take prompt and decisive action whenever necessary in their own behalf.

**PRESIDENT PLATTEN:** It has been usual, gentlemen, to appoint a nominating committee or refer to the chair the appointment of a committee in connection with the election of five new members of the Executive Committee for the coming year.

**MR. McCARTER:** I offer the following resolution:

*"Resolved, That a nominating committee of five be appointed by the President, which committee shall receive names in writing from the delegates present, from which names the nominating committee shall select five members of the Executive Committee for the term ending in 1922, which names shall be reported back to the Convention for its action."*

I offer that resolution and move its adoption.  
(Seconded, and carried unanimously.)

## REPORT OF THE SECRETARY

LEROY A. MERSHON

In order to observe the past custom of filing a report by the secretary, a statement is hereby submitted in its briefest possible form regarding the work of the secretary's office during the past year.

It has been my great privilege to complete three years of service for the trust companies of the United States, having been elected to the office at the Kansas City convention in 1916.

The past twelve months have been exceedingly busy ones, particularly along the following lines:

1. Preparation of matter for annual proceedings, monthly articles for the Journal of the Association and other financial publications throughout the country.

2. Assistance to the President, Vice-President and Chairman of the Executive Committee as well as eight sub-committees, as listed in your present programs. Special mention may be made of the volume of work passing through the office in assisting the Committee on Legislation, which handles Federal legislative matters and the Committee on Protective Laws handling state legislative matters. The work of the latter committee has been particularly heavy this year because of the meeting of forty-three state legislatures.

The work of the Committee on Publicity and Co-operation with the Bar has been active and of large volume.

Calls by trust company men at the office of the Association have greatly increased throughout the year, many being made for the purpose of securing information or service of such a nature as we are now equipped to furnish.

Hundreds of requests received by mail sought information or assistance upon every conceivable topic of interest along the line of organization and operation of trust companies.

A greatly increased amount of traveling has been done throughout the year. In March and April a trip was taken through the states of Iowa, Nebraska and Colorado—members visited and service rendered. Talks were given before bank and trust company men and the trust companies of Nebraska assisted in organizing for protective and constructive work.

Following the spring meeting of the Association held at White Sulphur Springs, West Virginia, a trip of five weeks' duration was taken to the Pacific Coast and Central Western States. Nine talks were

given upon this trip before state bankers' conventions and various groups, and much increased interest secured in our work. The field was opened for a closer co-operation between this section and members in all of the states visited.

Subject matter for addresses has been prepared for the assistance of junior officers and senior clerks in presenting the work of the trust company before business and other gatherings throughout the country. Articles prepared by trust company men in various parts of the country upon trust company subjects have been received at the office for criticism and suggestions before publication.

The usual work in connection with the annual Trust Companies' banquet was performed.

The membership of the Section shows a total increase of one hundred and thirty-two during the past year in active and associate members, and now numbers one thousand five hundred and sixty-three active, and four hundred and two associate members.

The financial statement of the Section shows an appropriation granted by the Executive Council at the last convention of \$14,500. An additional appropriation of \$1,200 was granted at the spring meeting. This, together with small sundry credits, aggregate total receipts of \$15,892.48.

The disbursements for salaries, rent, convention expenses, book of proceedings, Executive Committee meetings, postage, stationery and printing, traveling expenses, extra office help, telephone and telegrams and other sundry items amount to \$15,681.08, leaving a credit balance of \$211.40.

The work conducted through the Secretary's office has been stated in a very incomplete and brief manner, but from which it is hoped that the members of the Section will gain some idea of the volume of work now being passed through the office, and it clearly indicates that the only essential in order to carry our plan through to completion is an adequate financial budget. This is of paramount importance. Without it the Section cannot continue to grow.

**PRESIDENT PLATTEN:** The Chair announces the names of the gentlemen to serve upon the Nominating Committee:

Theo. G. Smith, president International Trust Co., Denver, Colo.; Chas. H. Adams, assistant treasurer Union Trust Co., Detroit, Mich.; Jas. M. Pratt, vice-president Guaranty Trust Co. of New York; Arthur V. Morton, vice-president The Pennsylvania Company for Insurance on Lives and Granting Annuities, Phila., Pa.; Thomas C. Hennings, vice-president Mercantile Trust Co., St. Louis, Mo.

## SECOND SESSION

Ball Room, Hotel Statler, 2 P. M., Tuesday,

September 30, 1919

## ANNUAL ADDRESS OF THE PRESIDENT

JOHN W. PLATTEN

Twenty-three years ago this month, to be exact, on Tuesday, September 22, 1896, a meeting was held by representatives of Trust Companies attending the American Bankers' Association convention then in session at the Planters Hotel in this city. This meeting had as its object the consideration of some plan for organizing a Trust Company Section of the Association, pursuant to an invitation which had been sent out from St. Louis on the 9th day of that month by Mr. Breckinridge Jones, the Second Vice-President of the Mississippi Valley Trust Company, and now its honored President, and signed by about thirty of the leading Trust Company officials of the United States. This preliminary meeting was called to order by Mr. Jones, and Mr. Henry M. Dechert, President of the Commonwealth Title Insurance & Trust Company of Philadelphia, acted as Secretary.

Two days later the gentlemen in attendance proceeded to effect an organization and adopt By-Laws unanimously selecting Mr. Dechert as Chairman, and Mr. Anton G. Hodenpyl, then Secretary of the Michigan Trust Company of Grand Rapids, as Secretary of the new Section.

One year later the first annual meeting of the Section was held in Detroit, and the Chairman, Mr. Dechert, in his remarks to the assembled Trust Company representatives, stated in part:

"The Trust Companies of the United States represent a very large share of the industry and wealth of the country. An incomplete statement shows that they have a total capital and surplus of \$224,606,000. The scope of our Trust Company Section will enlarge with each year and we who have been at its beginning may reasonably hope that our labors will be rewarded by further success and by strengthening the Trust Companies in caring for and promoting the interests of their customers and clients and the prosperity of our country."

The first Annual Meeting was held in 1897, the year before our war with Spain, and since that time what a vast deal of water has run over the dam, and how steadily have the Trust Companies of the United States forged ahead during the intervening years!

After ten years the resources increased over three billions of dollars. In another ten years, or to 1918, they further increased five



and one-half billions, and now, I am happy to report that we are able to give you the advance figures of the total resources of the Trust Companies of this country as of June 30, 1919, which show the magnificent total of eleven billions, one hundred and fifty millions, or one and three-quarters billion greater than a year ago.

Such a record of continuous and healthy growth in volume and material resources—in public esteem and in opportunities for usefulness to their respective communities, and to the country at large, is truly phenomenal. All the more does it compel our interest and admiration when we consider the keen competition which exists today, brought about by the granting of fiduciary powers to other financial institutions.

That there will be a greater demand for the utilization of these particular functions cannot be doubted, but I believe that in all this wider activity of competitive conditions, present and prospective, Trust Companies, created as they were for the specific purpose of caring for this class of business, will develop far beyond our present expectations, because of their particular qualifications—collective experience—and uniformly high standard found in their management, fitting them for the specific task of safeguarding and protecting the vital interests of the individual as well as the corporation. We must, however, bear in mind at all times that the element of SERVICE is the principal factor. Educational publicity is of undoubted value, but satisfied customers are the best possible business builders for the institutions we represent.

Permit me at this point to say that nothing in the past history of the Trust Companies of the country reflects more lustre upon the intelligence and sterling patriotism of their management than the manner in which they responded to the heavy demands made upon them as the result of our country's participation in the War. Not only did they contribute enormously of their own resources, directly and indirectly toward the success of the five great Liberty Loans, but the influence exerted upon their clients and customers to the same end was of vast assistance to the Government. Furthermore, their whole-hearted encouragement of the policy of thrift, which the Government's War Savings Stamp campaign was designed to promote, has afforded additional evidence of their desire not only to successfully uphold the nation's financial integrity throughout the War, but to inculcate correct economic principles in the minds of the growing generation.

Right here allow me to refer to the growth and development of the Community Trust idea and to point out that the Trust Companies of the United States have it within their power, working strictly along the lines of their legitimate business activities, to become a most important factor in advancing the social welfare of the Nation.

Of great importance to State Chartered Institutions was the creation of the office of Second Vice-President at the Chicago Convention and the election to that office of a member of our Executive Committee—Mr. John S. Drum, President of the Savings Union Bank and Trust Company of San Francisco—and by a further amendment of the Constitution there was accorded to State Chartered Institutions for the first time in the history of the American Bankers' Association, representation of the Presidents of the various Sections upon the Administrative Committee. As a result of this policy a broader interest and closer co-operation has been evidenced in the work of the Association.

Two important amendments to the Constitution, recommended by the Administrative Committee and, in turn, approved by the Executive Council at their Spring meeting for submission to the Convention, are:

(1) To add to the Federal Legislative Council and the State Legislative Council, in addition to their present membership, the State Vice-Presidents of the Association and the First Vice-Presidents and State Vice-Presidents of the Trust Company, Savings Bank, National Bank, State Bank and Clearing House Sections, and

(2) To permit any section to take independent action in any legislative matter in cases where the diversity of interest or opinion may make it impossible for the Association as a whole to advocate such legislation through its duly constituted machinery.

The adoption of these two amendments will, it is believed, remove in large part the necessity for the continuance of the United States Council of State Banking Associations, which, because of the inability of the State Chartered Institutions to act independently on legislative matters, was organized in this city two years ago. Anticipating favorable action on the latter amendment and to provide the necessary machinery, a Joint Conference Committee was created, consisting of nine members—three representative of the Trust Company Section, three from the State Bank and three from the Savings Bank Section.

The agitation for the removal of the general offices from New York City to Washington, and now possibly elsewhere, crystallized about the first of the year in a referendum vote by the Executive Council, which vote favored Washington. Later, active opposition developed, principally on the part of the State Chartered Institutions, which led the Administrative Committee to recommend to the Council at the spring meeting that action on the matter be deferred and that the whole question be referred to the Convention for final determination. Without here going into the many reasons why the general offices should not be removed from the financial center of this country, and following the decided position taken by our Executive Committee, as set forth in the February resolution, my earnest recommendation

is that action be taken today which will leave no doubt in the minds of the delegates present at the Convention that the Trust Company Section is opposed to any change in the location of headquarters.

As for the work of the Trust Company Section during the past twelve months, the reports of the various committees and the Secretary will have revealed to you in detail the wide scope of the service performed, and it is a pleasure and a privilege for your President to testify to the staunch support and active co-operation of the Executive Committee, and all officers through whose agency the work has been carried on.

The Banquet of the Trust Companies of the United States, which has for eight years been an annual occurrence, was not held in 1918 because of war conditions. It may not be amiss to record the fact that the Banquet held last February, a very successful affair, was the largest in point of attendance in the history of these mid-winter gatherings, over one thousand guests being present. In another respect, too, it may prove that the last banquet will have been a memorable one, July 1st, 1919, having separated the old order from the new.

The general problems confronting the country today are many and varied, demanding clear thinking and the exercise of the soundest judgment and the most intelligent co-operation on the part of every trust company man, not only as a citizen, but as a guardian of the funds of others. Any one of them might be dwelt upon at great length. I hesitate to take up even a moment of your time on these matters because you are familiar with them, and yet on an occasion such as this it is only proper and appropriate to refer to the two overshadowing questions of domestic importance, namely, the RAILROADS and the GENERAL LABOR SITUATION.

As to the RAILROAD PROBLEM, we are all very deeply concerned in the welfare of our railroads. Could we but have a solution of this great question it would go a long way toward solving many of our other troubles.

We all recognize the fact that the transportation system of the United States as a whole has at the present time practically no reserve capacity. In fat years it will be taxed to the utmost to handle our domestic and export requirements. We also realize that because of Federal and State regulation the railroad business has lost much of the attraction which heretofore gathered into its service and developed some of the ablest men of our time. Any solution of the railroad problem must offer both adequate facilities for our future needs and a career for ambitious men with a fitting reward for efficiency. To accomplish these indispensable objects it is absolutely essential that railroad credit be restored and railroad securities again be made a premier investment. While some of the country's greatest

thinkers have devoted long study to the question, no proposal yet made has met with general acceptance.

When the Warfield Plan, which is recognized as embodying many excellent features, was first advanced, endorsement was given to it by the Executive Committee of the Trust Company Section. Many other plans have been advanced—all have been studied and analyzed, and a more intensive examination has developed that they likewise contain excellent features. Any one of these plans might be discussed at great length and much might be said upon the all-important question. I refrain, however, beyond expressing the belief that out of the confusion some solution, embodying all the advantageous features of the various plans advanced, will finally emerge which will, no doubt, insure to the owners control and management of their properties under reasonable Governmental regulation and recognize, in a liberal spirit, the rights of the traveling and business public, and the legitimate claims of employees whose co-operation is necessary for the successful operation of the railroads.

Let us now briefly consider the LABOR SITUATION. I personally hold no brief for profiteers, for employers who pay less than a living wage, or for the reprehensible methods which have come to be identified with the sweatshop. On the other hand, labor must realize sooner or later that there is no mystery, no secrecy, in the ways and means by which men accumulate competencies. No set of laws, no system of taxation, no distribution or re-distribution of wealth or incomes, can make a people prosperous. Each and all must work and each man is rewarded according to his contribution to society. "In the sweat of his face shall he eat bread." This is as true today as when it was first spoken more than two thousand years ago and it is one of those fundamental truths which do not change with the passage of time and the alteration of economic conditions.

The high cost of living can best be combatted by increased production—underproduction causes real privation to the masses whose purchasing power is limited.

Many find it difficult to answer the question which is being asked by thinking people all over the world today: "Why is it that with billions of capital literally wiped out of existence by the destructive processes of war, and ten millions of producers in their graves, a large part of the world is today spending money more lavishly than ever before on non-essentials—especially in America." The answer is a simple one: "The habit of 'spending'" has been formed and to gratify it without stint we are, without realizing this fact, borrowing from the accumulated capital of civilization and dissipating resources which ordinarily would have been held in trust, as it were, and laid aside for the next generation. It may, therefore, be said in a very real sense

that it is posterity which, after all, is going to pay a large share of the bill for our present day extravagances.

All of these considerations are intimately connected with the relations existing between capital and labor and between employer and employe. In order to reconcile interests which in the past have been only too often in conflict, as one writer has said, "Business must be clothed with a spirit of accommodations and any element opposed to a meeting of minds has no place in the present or future of this country." Cordial co-operation between employer and employe is more than ever essential, production should govern wages and "political wage making" be discouraged as a dangerous precedent. Only by these means shall we be able to steer a safe and happy middle course.

It is significant, as a prominent New York banker stated a few days ago, that "For the first time in the history of our country economic problems are at present more interesting to the public than politics," and while appreciating that we are confronted with a disturbing condition of affairs, with problems pressing upon us which have never been so vast, so numerous, so complex, yet having faith in this nation's ability to overcome great obstacles, I am confident we shall be able to meet and pass them successfully. At any rate, we must go forward with unshakable optimism, with shoulders square and heads high. America, with her huge resources and wonderful industrial organization, has the opportunity for constructive service of the highest order. The War has set new standards for the future and has shown us all what co-operation and the bending of the energies of all to the performance of a single task will accomplish even in the face of persistent and determined opposition. What we need most of all is **WORK—MORE WORK—THRIFT—and WHOLE-HEARTED CO-OPERATION**. In the words of Kipling:

"It ain't the guns nor armament,  
Nor the funds that they can pay,  
But the close co-operation that makes them win the day.  
It ain't the individuals, nor the army as a whole,  
But the everlastin' teamwork of every bloomin' soul."

The address of F. H. Goff, president Cleveland Trust Co., Cleveland, Ohio, on "The Development of Community Foundations and Trusts," follows:

## THE DEVELOPMENT OF COMMUNITY FOUNDATIONS AND TRUSTS

F. H. GOFF

The war has demonstrated, if demonstration is needed, the superiority of large over small units in industry, trade, transportation and finance. It would have been impossible to have equipped our army had we been dependent upon the rolling mills, furnaces and machine shops of a half a century ago. Had the gold reserves been held in the vaults of twenty-five or thirty thousand institutions as they were prior to the creation of the Federal Reserve Banks, it would have been impossible to have extended the large credits to our Allies or to have financed the war on the scale we did. It was found necessary to the successful prosecution of the war to place our railway systems, extensive and well-managed as they were, under unified control. The war has taught us how large units make for economy and efficiency and permit of the carrying on of business and the doing of things on a scale otherwise impossible.

Mr. Rockefeller has displayed, in the creation of his charitable trusts, the genius and ability for which he is noted in business. His investments in charity as in business are made to secure the maximum of return. The character of work thus far done by the foundation created by him, which is the largest and perhaps the best conceived of any charitable trust, makes it seem possible that better results and greater efficiency could be secured if the management and control of the property dedicated to charitable use in each community could be centralized in one or at most a few governing bodies.

If Mr. Rockefeller had not believed in the value of large units for handling charitable gifts, he would have created, let me assume, a thousand separate, independent trusts of one hundred thousand dollars each instead of one trust of one hundred million dollars. The multitude of smaller trusts could have distributed alms as well, perhaps better, than the large trust he did create, but it would have been impossible for them to do the constructive work the Rockefeller Foundation has done. If we consider the generous contributions made by it to every war activity and the important aid rendered by it in dealing with tuberculosis in France, typhus fever in Serbia, and hunger in Poland and Belgium, and contrast it with the service that could have been rendered by a multitude of smaller trusts having in the aggregate the same amount of funds at their disposal, the advantage of large units in charity will seem relatively as great as the advantage of large units in industry. And the advantage would be immeasurably greater if we were to conceive of the multitude of small trusts being created by different individuals, for the most part unhappily lacking

the genius of Mr. Rockefeller in planning charitable trusts to endure for all time.

Mr. Rockefeller's gift, you will remember, was made broadly and unrestrictedly to promote the well being of mankind. Recognising his inability to foresee the needs of mankind in future ages, he imposed no restriction and made no suggestion as to how either interest or principal should be used. The trustees were left unhampered to use of either for the needs of war in times of war and under the broadest possible powers for the service of humanity in times of peace. He must have recognised that it is an important function of endowments to make possible, experiments in benevolence and to make known to governments how they can better serve mankind; he must have known that it has been the privilege of charity for ages to pioneer the way in education, in caring for the sick, the needy, the blind and the helpless; in teaching the health-giving possibilities of playgrounds and bathhouses and the elevating influences of music and art. He must have believed that in the future, as in the past, the public will note the trails blazed by charitable effort and that governments will not only continue to care for the sick and helpless, to maintain institutions to teach the blind and the dumb, to provide education and recreation through music and art, but that they will, in the future as in the past, assume responsibility for doing the things which charity demonstrates to be worth while. He must have recognised that as this is done, his charitable trust would be freed to take up the solution of new problems, the nature of which he could not foresee.

Let me assume, to further illustrate my thought, that one thousand charitable trusts of one hundred thousand dollars each, were to be created in this city of St. Louis today by one thousand different donors. Many would be unalterably dedicated to providing for the carrying on for all time of some work in which the donors have been interested in their lifetime, quite regardless of whether it would have the possibilities of enduring usefulness. Unquestionably, those who were charitably inclined in Panama twenty-five years ago would have desired to have dedicated their gifts to establishing and maintaining hospitals for the cure of yellow fever, in ignorance of the fact that the real need was to provide funds with which to drain the swamps and sprinkle the marshes with oil. Some of the gifts, perhaps, would have been dedicated to the propagation for all time of some form of religious faith, unmindful of the fact that the trend of the times is to wipe out denominational lines. It was only in the middle of the last century that a foundation was created in England to propagate the sacred writings of Joanna Southcote who founded a religious faith based on the belief that she was to give birth to the Messiah. Her fanaticism procured for her a numerous following which withered away when she died childless.

Some of my assumed donors, seeking perhaps divine favor and the remission of sins, would have endowed ecclesiastical institutions in a way to paralyze the efforts they desired to promote. It may be recalled that David Hume advocated the endowment of the Christian Church as the surest means of benumbing her. For centuries it was regarded as an act of piety to create a foundation to build an almshouse or to provide for the giving of alms to the poor of a parish. We now know that both tend to increase the evil sought to be corrected. Foundling Hospitals used to be a favorite object of Foundations, but they were found to have a demoralizing influence upon the population by removing the first penalty of fallen virtue. There are undoubtedly many who would create foundations on as narrow lines as did Bryan Mullanphy of this city, who in 1851 left a substantial portion of his fortune to aid his compatriots in journeying across what was then the "Great American Desert."

Some would undoubtedly have endowed schools, unmindful of the fact that a Commission on Popular Education in England in 1860 found that the influence of endowments on education, almost without exception, had been unfavorable, that the inefficiency, languor and inadequacy of results to expenditure called for the intervention of parliament. The Dean of Carlisle, testifying before this Commission, said that the endowments of schools for the working classes had proven to be an unmitigated evil. Some schools were found to be badly conducted—others illy conceived. A school founded by Robert Pursglove, then Bishop of Hull, in 1560, will illustrate the conceit sometimes shown by early founders. His scholars were to range from those who could not speak plainly to those who could read Horace and Cicero. The school was divided into four forms and the studies of each form were prescribed with the minutest detail. The subjects of instruction were reading, writing, Latin, grammar and composition and certain specified Latin authors. This was the whole curriculum and it was to be unalterable for all time.

Some of my assumed donors might have displayed the eccentricity and vanity of Thomas Nash, who bequeathed Fifty Pounds per annum in trust to the bellringers of Abbey Church, Bath, on condition that they ring the whole peal of bells with clappers muffled from eight o'clock in the morning to eight o'clock in the evening on the 14th day of May each year, that being the anniversary of his wedding, and that on the anniversary of his death each year, they ring merry, mirthful peals with unmuffled clappers, during the same hours, in joyful commemoration of his happy release from domestic tyranny.

I have no doubt that some will think the dangers of creating the sort of trusts I have been describing is more fanciful than real, but experience leads me to think otherwise. A large trust was recently created in my home city which provided for the use of income for



all time for certain charitable institutions in designated amounts, regardless of whether they were worthily and efficiently operated. Another large trust provided for the distribution of income among certain hospitals in proportion to the number of patients cared for without regard to the character or cost of service. An audit made last year disclosed that one of the hospitals was operating at a per patient cost of about \$1.60 per day, while at another the per patient cost was \$4.50. Another trust created about six years ago provided that after the death of certain individual beneficiaries, the income of a very large estate shall be devoted for all time to the beautifying of a cemetery.

The evils resulting from restricted trusts became such a menace in England that Parliament created a commission to investigate them. It found that there were many foundations which were working physical and moral injury to the communities they were created to serve. Many were found to be in need of revision because the purpose for which they were created had ceased to exist or been found to be unwise or harmful. The result of the investigation led some to urge that the government exercise control and supervision of the creation of charitable trusts.

I hope I have not spent too much time in urging that charitable trusts be created broad and flexible enough to permit of unrestricted use if the purpose designated by the donor ultimately becomes unwise or obsolete. Coupled with the power to give should be the power to withhold, for the evil of the "Dead Hand" though ages old, cannot be avoided. There is a giving that neither blesses them that give nor those that receive, and I hope the time will soon come when the law will recognize that property belongs to the living and not the dead to the extent of forbidding the appropriating of wealth unalterably to a narrowly conceived public use.

To the extent that trusts are presently created for the good of humanity, or made ultimately available for such use if dedicated to special purposes at the outset, it would make for greater efficiency and economy, for better security and abler management if the property constituting such trusts in every community whatever its geographical boundaries might be, whether town, city, county or State, were held and administered as though constituting a single trust, with power to designate the use of income lodged in a competent and representative committee or board of trustees.

The purpose of the community trusts thus far created, so far as I know them, is to provide such administration and control. They might be defined as charitable trusts created and managed by the members of a community for the benefit of the community. They permit of the use of income, and principal under certain conditions, for every charitable and educational purpose which makes for the advancement

of mankind, regardless of race, color or creed. For the most part they provide that the trustee shall respect and be governed by any particular wishes that may be expressed by the donor as to use to be made of the property given by him, but only in so far as the purposes indicated shall seem to the trustee under conditions as they may hereafter exist, wise and most widely beneficial, absolute discretion being vested in the trustee to determine with respect thereto.

Quite as important as the scope or breadth of purpose of a charitable trust, whether created by a community or an individual, is the need of providing for an able and responsible management of the property constituting the trust. It is equally important that the power to dispose of income should be lodged in those who are interested in welfare work and have a knowledge of the civic, educational and moral needs of the community. It is desirable that their term of office be for a more limited period that they may be answerable, as upon a recall, should they be candidates for re-appointment, if they have been neglectful of their duties or lacking in vision.

The founders of community trusts and the public, who are the real beneficiaries, are concerned that the trusts be administered with ability, fidelity and zeal. It is desirable for their protection that the accounts of the trustee and the committee on distribution be audited annually by competent, disinterested, public accountants, whose reports should be made public. To further lessen the danger of maladministration and fraud, the books and records of the committee and trustee should be open to inspection by the Attorney General of the State or the law officer of a municipality.

Provision has been made in all the community trusts thus far created, so far as I know them, for the protection and safeguards I have indicated. The power of visitation is conferred. One or more responsible corporate trustees are designated to manage and control the trust estate. Unrestricted power to distribute income and under certain conditions a portion of the principal, is delegated to a non-sectarian, non-political committee of five or more members who are experienced in welfare work, some appointed by the trustee, others by public officials.

The following is a list of the community trusts which have been established since January 1, 1914:

Place	Trustee and Date Established.
1. The Cleveland Foundation;	
	The Cleveland Trust Co., Jan. 2, 1914.
2. St. Louis Community Trust;	
	St. Louis Union Trust Co., Jan. 21, 1915.
3. Spokane Foundation;	
	Union Trust & Savings Bank, March 23, 1915.

- | Place                                | Trustee and Date Established.  |
|--------------------------------------|--|
| 4. Chicago Community Trust;          | Harris Trust & Savings Bank, May 12, 1915.   |
| 5. Milwaukee Foundation;             | Wisconsin Trust Co., May 24, 1915.   |
| 6. Los Angeles Community Trust;      | Security Trust & Savings Bank, June 1, 1915.                                       |
| 7. Attleboro Foundation;             | Attleboro Trust Co., June 15, 1915.  |
| 8. Minneapolis Foundation;           | Minneapolis Trust Co., June 25, 1915.  |
| 9. Permanent Charity Fund;           | Boston Safe Deposit & Trust Co., Sept. 7, 1915.                                    |
| 10. Houston Foundation;              | City of Houston, Texas, Oct. 5, 1915.  |
| 11. Detroit Community Trust;         | Detroit Trust Co., Dec. 7, 1915.   |
| 12. Seattle Foundation;              | Seattle Trust Co., Dec. 20, 1915.  |
| 13. Sioux City Common Fund;          | Farmers' Loan & Trust Co., December 28, 1915.                                      |
| 14. Indianapolis Foundation;         | Fletcher Savings & Trust Co., Indiana Trust Co.,<br>Union Trust Co., Jan. 5, 1916. |
| 15. Louisville Foundation;           | Louisville Trust Co., May 10, 1916.  |
| 16. Rhode Island Foundation;         | Rhode Island Hospital Trust Co., June 13, 1916.                                    |
| 17. Hawaiian Foundation;             | Hawaiian Trust Co., Dec. 29, 1916.   |
| 18. New Orleans Community Trust;     | Interstate Trust & Banking Co., June 13, 1918.                                     |
| 19. Philadelphia Foundation;         | Fidelity Trust Co., Dec. 20, 1918.   |
| 20. Pittsburgh Community Foundation; | Commonwealth Trust Co., Aug. 22, 1919.   |

The trustee of the community trusts thus far created, recognising that the living prefer to dispense their charity during their lifetime and that gifts to charity for the most part are made at death, have properly directed their efforts to seeking contributions under wills and living trust agreements. Undoubtedly some bequests, especially where the donors are childless, will become available at the death of the donors but for the most part bequests will not become available until the death of wife and children and sometimes not until the death of grandchildren.

A booklet describing the St. Louis Community Trust well says that "the Community Trust can afford to wait; it is for all time; it has no pressing demands; it can gather up bequests and donations as and when donors desire to give them and translate them into practical, helpful assistance for that portion of the community which at the moment stands most in need of help." Time will be required to determine the value and usefulness of community trusts. I am hopeful they will be found helpful in avoiding the evil effects of the "Dead Hand" and in stimulating and safeguarding gifts to charity.

Most lawyers have contributed their share to creating charitable trusts restricted to definite and unalterable uses. My experience as a lawyer and trust officer in dealing with prospective founders of charitable trusts has led me to believe that they seldom have definite ideas as to the purpose to which they would dedicate their wealth. They seek the advice of trust officers and counsel, who, unfortunately, sometimes are lacking in experience and vision which would enable them to be most helpful. To wisely plan a trust intended to serve an unalterable purpose for all time necessitates the founder seeking out an evil to be corrected and the remedy to be employed. Then means must be devised to secure independent and effective application of his gift for all time to the purpose designated and the withering effect of neglect, waste and fraud must be guarded against and means devised to provide proper stimulus for those who are to administer the trust, for the zeal of the founder cannot be bequeathed with his wealth. These problems require time, patient study, a trained mind and a political wisdom and the hurry and bustle of the banking room and the law office are sometimes ill-adapted to their resolution.

It will make for the convenience not only of donors but of corporate trustees if a general plan for handling charitable trusts in each community, whether they be large or small, can be finally worked out on lines that are so broad and flexible and so effective as to safeguard every interest and serve every need. It is not improbable that trust companies in time will be regarded as inadequately equipped to serve the benevolently disposed unless they have some well conceived plan available for general use.

Personally I believe that institutions, as individuals, owe a duty to serve the communities in which they exist. Trust companies, as I view it, are charged with the responsibility of being helpful in gathering up for the use of the communities they serve the wealth that goes to waste. To serve in this way, without taint of self-seeking (by which I would not wish to be understood to mean without compensation, for gratuitous service soon becomes synonymous with poor service, introduces an elevating and spiritualizing influence in an organization which makes for higher ideals, and the highest ideals are needed in an institution that aims to serve the living and the dead.

There are many in every community who feel a sense of regret that the effort they have been compelled to make to establish themselves in life has consumed too much of their time and energy. They desire to give their children every opportunity and advantage their means can provide which will make for useful and respected citizenship. Many will be found who agree with Mr. Rockefeller that money that comes without effort is seldom a benefit and with Mr. Carnegie that we are trustees in a very real sense of the wealth we possess. There are many who fear to unduly enrich their children or to make them prey of the fortune hunter or the cunning and unscrupulous promoter. To make it impossible for them to come to want and become dependents in their old age, men of wealth are increasingly trusting all or some portion of their property so as to permit of the use of income and if need be, all of the principal, in providing for the comforts and enjoyments of their family. Often such disposition results in a portion of the estate being left unconsumed. This residuum, even in estates of moderate size, can frequently be secured for community use after the death of individual beneficiaries, for people of limited means share with men of wealth, the desire that the world may be the better for their having lived. They welcome finding a way in which some portion of their estate may be used in helping to make better, stronger, purer men and women. I am hopeful that in these days of social unrest, when the accumulation of large fortunes is often decried, if it be known that a generous portion of the wealth one accumulates is ultimately to be devoted to community use, it may be deemed honorable, even in the eyes of the professional critic, for men, who prefer struggle and achievement to idleness and leisure, to continue the pursuit of wealth.

An address, "Some New Duties of Bankers," was delivered by Hal H. Smith, member board of directors, Union Trust Co., of Detroit.

## SOME NEW DUTIES OF BANKERS

HAL H. SMITH

Mr. Chairman and Gentlemen of the Trust Company Section: I did not accept the invitation of the Program Committee with the idea that I should attempt to deliver an instructive address to this meeting. What I thought was that it might not be improper to come here and make an inquiry. I wanted to ask where the trust companies and bankers intend to stand on this old issue, but new fight, with the forces of socialism and anarchy.

You are already thinking that this is a curious inquiry, that of course the banks are opposed to socialism and anarchy—but that hardly answers the question. What do the banks intend to do with the employer and customer of theirs who is face to face with a strike? What do we intend to do this week with plants all through the country whose raw material is curtailed by the steel strike, and who will need funds to carry them until that strike is over? Will they be financed to the limit, or will their quick assets be scrutinized with the meticulous care of the so-called conservative banker? Will you translate your confirmed opposition to socialism and strikes into something of definite value to the nation, or will you make, as money generally does, an orderly retreat in the face of battle on the theory that your first duty is to your trust and your depositors? Do you propose to stand to the aid of every employer who now needs assistance, who resists unjust labor demands, or will you gently but firmly withdraw his credit as his strike wears on to its end? Are you going to continue to support as a popular charity every plausible scheme to better somebody's condition by the conversion of somebody else's property, or are you going to employ every dollar of your resources, your customers' resources and your depositors' resources, that it is within your power to employ, to defend the doctrine that private property is entitled to the protection of law, and that an honest day's wage demands an honest day's work?

In a word I thought it might not be out of place to inquire here whether, in this fight against the unjust demands of the labor union and the bolshevist, you intend to take your place as patriotic business men in the trenches, or whether you will find it convenient to remain at home and await the draft and conscription? I make that inquiry because the time has come when something more than the words and platitudes in the advertising circulars of banking institutions is needed in the defense of the nation's industries, and because the business men of the country from now on will want to know whether their banks are their fair weather friends or their steadfast defenders.

The issues between the closed shop and the employer, and between the bolshevist and all the rest of society, are not the issues of the economist and the employer alone; they are the issues of the bankers as well. The theory of the highest wage for the least work is hardly the theory of thrift. It is not the theory of orderly honest saving, and in the long run it runs counter to every principle upon which is founded the whole system of banking.

The doctrine that private property shall end is not the doctrine of a trust company. A trust is perhaps the highest expression of the theory of private property. A testamentary trust projects the will of the testator into the future and makes it effective on his property years beyond his death. It finds agents so loyal to the theory of the

sacredness of the property that has resulted from a man's lifetime of effort that they will carry out faithfully—that is the pride of the trust company—that they will carry out faithfully the intention of the creator of the trust long after his power to direct them or punish them has gone. The trust is the apotheosis of the theory of private property.

Where then should the trust company and bank stand when the very institution of private property is attacked?

Do not think that it is not attacked by the trade union. In principle, perhaps, the trade union has not been against it. Originally the union demanded the right to organize solely in order to compel the payment of a better wage and to improve the working conditions of its members. So far that is the recognition of the sacredness of private property. It only demands what is conceived to be a just proportion of the earnings of that property. But for years these trade unions have fought their battles and in time have grown in strength and power. Now, drunk with a political power but recently accorded to them, and swollen with a political prestige created by a new and surprising deference upon the part of those who rule the nation, they have advanced from their demands for a part of the earnings of the industry in return for their labor, to a demand for a participation in the control of the industry without an ownership therein or participation in the risks of that ownership. They seek now to take over a part of the functions of the ownership of private property without joining in the responsibility of that ownership. That is an attack at the very theory of private property since that theory confines to the owner alone the right of control over his property so long as that control does not run counter to the public good.

This demand for a part control, without a part ownership, is the open demand of the union. They make, however, a more insidious threat at the whole theory upon which our civilization rests when they persistently preach the doctrine of the highest wage for the least possible work. Civilization was not built upon that theory; savings do not grow upon that doctrine, the accumulated wealth of the centuries never developed upon that principle. Every atom of civilization that we now possess rests upon the principle of unstinted labor. If achievement for the sake of achievement—not for the sake of reward—were eliminated from the history of the world, there would today be but little civilization. Private property, which is the saving of prior labor and effort, could not have come into being upon a decreasing margin of labor. It arises only when there is an increasing margin of labor over necessities. It grows and multiplies when we offer the greatest amount of labor in return for a complete and just compensation.

I distinguish between the trade union and the Bolshevik. They

are in theory radical opposites. The Bolshevik will never become a trade unionist. But though they are in theory as far apart as the two poles, the trade union man turns easily into a Bolshevik. The trade unionist rebels against the methods of the capitalistic system. The Bolshevik rebels against the whole system, principles and all. The trade unionist, not understanding the theory of his opposition, slips easily into open revolt against all society. But the Bolshevik, who desires to wipe out all property, to nationalize, as he says, every industry, to destroy money and savings and the whole theory of our present civilization root and branch—he detests the unionist more than he detests the apostle of capital. The latter is his more or less respected enemy; the union which compromises with capital in return for an increase in wages, is a traitor to the cause of the proletariat. Where then the union fights with capital and is gradually driven by the logic of its position into a revolt against all private property, the Bolshevik at once and openly declares his eternal hostility to every form of property segregated to any individual who may have earned it by industry, by integrity or the employment of a superior intelligence in the work of mankind. Private property, he says, is theft. The modern unionist and the Bolshevik agree in one thing. They are both determined upon the loot of capital, but the Bolshevik sees in the end a triumph over both capital and labor, and a complete annihilation not only of capital and interest, but of all savings and all wages. It dangles before the needy and unfortunate the greater prize; and its doctrines, supported by the maudlin sympathy of the parlor socialist, make the more rapid progress.

Can it be that there is any truth in this theory, developed years ago, but now for the first time exploited by action, that the institution of private property is a crime against mankind? The whole Christian civilization rests upon it. The teaching of Christ respected it and the virtues he preached grew out of it. The whole conception of life is embraced in it. It is a familiar fashion to talk of the sacredness of life as compared with the sacredness of property and to condemn those who, as the popular phrase runs, exploit the man for the sake of the dollar; but how can you separate man from the property that surrounds him? It is a part of his very life. What would that life mean if today there were destroyed every vestige of that property that has been the result of the effort of our forefathers. Private property is the fruition of life. It is the expression of life. All the life that is in the hand, in the brain, in the heart, finds its finest development, its highest expression in the creation of new property. The glorious words of the poets, the wisdom of the sages, the inspiration of the prophets, they are no more than spurs to the development of mankind. The reason that they are glorious and wise and inspired is that they are ultimately translated into some



concrete agency for the betterment of life; ultimately transformed into a home or a tool that shall lift the individual higher toward divinity. But this is like carrying coals to Newcastle to defend the institution of private property before those who, as I said a while ago, spend their lives in the care of that property and daily demonstrate their complete belief in the sacredness of that institution by the faithfulness with which they discharge their trusts.

What then will the trust company do? Where will it stand in this first great battle? Will it whisper "Hush, hush," to the employer who defies the demands of those who seek to appropriate his property? Will it, like the coward that money generally is, leave that employer to struggle alone against these forces of envy and disorder? Or will it by its money and influence, by every means in its power, preach the eternal justice of the system which protects honest wages in the hands of honest industry, and concedes to honest capital the just reward of its employment.

How can the bank if we may attempt to be specific—how can the bank and the trust company employ its resources in this struggle? It can employ its resources to defend the existing institutions, not their evils, not their wrongs, but the fundamental justice upon which they rest and their virtues; thrift, integrity and industry. These are all bound up in their very existence with the theory of our Christian institutions. It is no small task to protect them. Thrift, in many of our communities, seems to have been forgotten and abandoned. Economy has been lost. A mad program of inflation and extravagance is everywhere in progress. Let not the banks be carried away with this flood. The bank which countenances the inflated capitalization, the dishonest promoter, the purchaser beyond his means, the workman that keeps no savings—that bank is surely not defending the institution upon which it rests nor the virtues which are needed to maintain the solvency of the individual and the solvency of a nation—not only the solvency of the nation, but the very nation's existence. Do you not see some connection between the thrift of the French peasant and the stupendous courage with which he withstood the German invader? Would you again find the same high principles in the individual American if you do not somewhere check the extraordinary wave of extravagance that is now corrupting the foundations of our society?

But I have said that the bank should defend the institution of private property. It needs to do more than that. It needs to comfort and to assist its allies—the manufacturer and the business man and the employer. For their battle is its battle, and their failure is its failure; their destruction is the destruction of its savings, its trusts, its deposits and its earnings. That help must not be confined to the advice with which our banker friends have been so free in the past. Criticisms

of balance sheets have their place; counsel as to curtailment of purchases has its value, but the battalion on its way to the attack wants no new plans delivered to it; no new program suggested. It wants a soldier marching with it; a new comrade that forgets past offenses and goes into battle as steadfast and joyous as an American in the Argonne forest.

But why should the bank wait for a chance to help the employer and the manufacturer? Why should it not at once advance to the attack to actively fight for its own principles and its own life? Why should it wait before it employs all its resources in this struggle? The banks have opportunities to join in the battle. There must be some bank that houses the funds of the American Federation of Labor out of which the attack on the steel corporation is financed. I have no knowledge where that bank is, but I am firm in the belief that the officers of that bank condemn the strikers as loudly as any of us and yet they issue to them certificates of deposits. Who finances the individuals that make this contest and carefully keeps for them their investments and savings while they go forth to riot and disorder? Is the lust for deposits and more business and profits so great that the banks somewhere must finance the very forces of the enemy? They might as well keep in store the enemies' guns and dynamite.

This is no time for the old conservative banker who earned that name by sacrificing everything to his profit and loss account. This is the time for a new and audacious banker who looks beyond the daily balance sheet to the fundamentals of life, who is prepared for sacrifice as are the employers and manufacturers who may lose their industrial existence in the defense of the principle of free employment.

It was heartening to read Mr. Morgan's message to Judge Gary, demonstrating that one House, at least, approved his stand. How much more heartening it would be if other banks could recognize that the strike at the steel corporation is a blow at every bank, and could pledge to it their support and could declare that wherever they saw the proposal for the closed shop appearing they would immediately attempt to destroy it.

This active battle is a battle of propaganda, a struggle to educate the public, the employer and the workman. It is a struggle to ameliorate all the unfortunate conditions in the life of any worker in industry. I have nowhere excused any employer who denies to the employee the highest wage for honest labor. That employer is as false to his institution as is the labor which fights him. Labor has the excuse that it seeks to redress an injury; that false employer has no excuse whatever. He may store up immediate profits, but he will eventually bring destruction to himself and his industry. At him the bankers should strike as surely and as certainly as they strike against any enemy. Too often the bank increases the loan to one

who pays too low wages and decreases the loan to one who pays high wages, forgetting that the real fundamental factors of credit are behind the balance sheet.

This contest of education and propaganda must go steadily on. We must convert the wage earner into the capitalist so that we can give him a part in the control of industry and make him in reality a partner. He can in any event be a partner in many respects; in the control of his labor conditions, in the control of his living conditions, in the discussion of questions of co-operation and conciliation. But only when he has acquired by his thrift a part ownership in the property, and he must always have that opportunity, should he rise to a full participation in its benefits and become a full partner in the enterprise.

Upon no other fundamental than upon the doctrine of part ownership can ever be built any division to the laborer beyond that of his regular wages for his regular day's work.

You say this plan of battle means a long road and a hard one, and that there is little help in it to meet the immediate problems and difficulties of the day. That may be true. But we are well on that road today and whether we will or not must follow it. This is no new world as some have said. The war has not changed mankind or the fundamental rules of life. The old evils remain unchanged and the old virtues. There is now no new panacea for all the wrongs.

We cannot hope at once to destroy the envy, all the jealousy, cupidity and greed in industrial life. We can only steadily set our face toward the final goal and continually struggle to lift out of penury and want and suffering every individual human being, not by charity, not by the destruction of the savings of others, not by the nationalization of the accumulation of centuries of efforts, but by the continual development of individual character and individual ability. Equality of property, equality of success, that can never be. Bolshevism may today destroy all inequality, but tomorrow individual effort will have built it up again. Equality of opportunity, that can be. It should be the goal of our civilization. When that is accomplished, then individual minds and individual souls shall for the first time find their finest flower. Nationalism for the nation; individualism for the individual; the fullest opportunity for each single life to develop and to grow, these must continue to be the final end of our existence. Always must those who walk in the valley struggle up to those who walk the heights. But they must not in that struggle destroy their fellows. They must advance all together. When the least among us shall have been made a king, then shall the greatest have justified their lives.

In this age-old struggle let the banks and trust companies write down their names as volunteers and take up their weapons to fight the

battles of the old property, the old religion, the old ambitions, the old hopes, the old virtues. There are no others.

At the Tuesday afternoon meeting the following resolution was unanimously adopted:

"WHEREAS, the removal of the Association offices from New York has been discussed and recommended by certain members, and

"WHEREAS, the Executive Committee of the Trust Company Section has unqualifiedly opposed such removal through the passage of a resolution adopted at a meeting of the Committee, on February 21, 1919, therefore be it

"RESOLVED, that this Section approves of the action then taken by the Executive Committee in this respect, and be it further

"RESOLVED, that this Section disapproves of the agitation and declares its purpose to retain its offices in the City of New York."

The Nominating Committee submitted as their recommendation for members of the Executive Committee to serve three years, the following, who were unanimously elected: Nathan D. Prince, vice-president Hartford-Connecticut Trust Company, Hartford, Conn.; George D. Edwards, vice-president Commonwealth Trust Company, Pittsburgh, Pa.; Evans Woollen, president Fletcher Savings & Trust Company, Indianapolis, Ind.; John Stites, president Louisville Trust Company, Louisville, Ky.; W. J. Kommers, vice-president Union Trust Company, Spokane, Wash.

Lynn H. Dinkins, president Interstate Trust & Banking Company, New Orleans, La., was elected President and Edmund D. Hulbert, president Merchants' Loan & Trust Company, Chicago, First Vice-President of the Section. At a meeting of the Executive Committee held at the close of the session, J. A. House, president Guardian Savings & Trust Company, Cleveland, was elected Chairman, and Leroy A. Mershon re-elected Secretary of the Section.

On account of lack of space the reports of State Vice-Presidents are omitted.

**OFFICERS OF THE  
SAVINGS BANK SECTION**

**AMERICAN BANKERS ASSOCIATION**

**1919-1920**

**Organized, November 11, 1902**

**PRESIDENT:**

**S. FRED STRONG,**  
**Treasurer, Connecticut Savings Bank, New Haven, Conn.**

**VICE-PRESIDENT:**

**W. A. SADD,**  
**President, Chattanooga Savings Bank, Chattanooga, Tenn.**

**SECRETARY:**

**LEO DAY WOODWORTH,**  
**5 Nassau Street, New York City.**

## EXECUTIVE COMMITTEE

### TERM EXPIRING 1920

- JOHN J. PULLEY, President, Emigrant Industrial Savings Bank, New York, N. Y.  
B. F. SAUL, Vice-President, American Security & Trust Company, Washington, D. C.  
W. E. KNOX, Comptroller, Bowery Savings Bank, New York, N. Y.

### TERM EXPIRING 1921

- SAMUEL H. BEACH, President, Rome Savings Bank, Rome, N. Y.  
FREDERIC B. WASHBURN, President, Franklin Savings Bank, Boston, Mass.  
R. R. FRAZIER, President, Washington Mutual Savings Bank, Seattle, Wash.

### TERM EXPIRING 1922

- MELVIN A. TRAYLOR, President, First Trust & Savings Bank, Chicago, Ill.  
LOUIS BETZ, Treasurer, State Savings Bank, St. Paul, Minnesota.  
W. D. LONGYEAR, Vice-President, Security Trust & Savings Bank, Los Angeles, Cal.

### EX-OFFICIO

- VICTOR A. LERSNER, Comptroller, Williamsburgh Savings Bank, Brooklyn, N. Y.

## STATE VICE-PRESIDENTS

1919-1920

- ALABAMA:** GROVER KEYTON, Cashier, Union Bank & Trust Co., Montgomery.
- ARIZONA:** F. J. STEWARD, President, Southern Arizona Bank & Trust Co., Tucson.
- ARKANSAS:** WARREN E. LENON, President, Peoples Savings Bank, Little Rock.
- CALIFORNIA:** A. M. CHAFFET, Vice-President, Hibernian Savings Bank, Los Angeles.
- COLORADO:** J. V. COCKINS, Vice-President, Central Savings Bank & Trust Co., Denver.
- CONNECTICUT:** A. I. ALLIN, Treasurer, Middletown Savings Bank, Middletown.
- DELAWARE:** ROBERT D. KEMP, President, Artisans Savings Bank, Wilmington.
- D. OF C.:** B. A. BOWLES, President, Potomac Savings Bank, Washington.
- FLORIDA:** J. D. PULLER, Cashier, Peoples Bank for Savings, St. Augustine.
- GEORGIA:** G. W. TIEDEMAN, President, Georgia State Savings Association, Savannah.
- IDAHO:** F. L. DAVIS, Cashier, Fremont County Bank, Sugar.
- ILLINOIS:** H. R. AISTHORPE, Cashier, First Bank & Trust Company, Cairo.
- INDIANA:** KENT M. ANDREW, Cashier, La Porte Savings Bank, La Porte.
- IOWA:** E. J. MURTAGH, President, County Savings Bank, Algona.
- KANSAS:** F. A. MANGLESORF, Cashier, American State Bank, Atchison.
- KENTUCKY:** J. H. SCHULTE, President, Central Savings Bank & Trust Co., Covington.
- LOUISIANA:** J. P. TURREGANO, Vice-President, Commercial Bank & Trust Co., Alexandria.
- MAINE:** WALTER A. DANFORTH, c/o Penobscot Savings Bank, Bangor.
- MARYLAND:** S. S. MCKIM, Vice-President, Savings Bank of Baltimore, Baltimore.
- MASSACHUSETTS:** L. A. FOYE, Treasurer, Lawrence Savings Bank, Lawrence.
- MICHIGAN:** WM. LIVINGSTONE, President, Dime Savings Bank, Detroit.
- MINNESOTA:** LOUIS BETZ, Treasurer, State Savings Bank, St. Paul.
- MISSISSIPPI:** W. N. CHENEY, Cashier, State Savings Bank & Trust Co., Jackson.
- MISSOURI:** W. S. WEBB, Vice-President and Cashier, Missouri Savings Association Bank, Kansas City.
- MONTANA:** W. C. RAE, Assistant Cashier, Daly Bank & Trust Co., Butte.

**NEBRASKA:** FRED R. GETTY, Cashier, South Omaha Savings Bank, South Omaha.  
**NEVADA:** FRED STADTMULLER, Assistant Cashier, The Washoe County Bank, Reno.  
**NEW HAMPSHIRE:** W. H. BELLOW, President, Littleton Savings Bank, Littleton.  
**NEW JERSEY:** HOWARD BIDDULPH, Treasurer, Bloomfield Savings Institution, Bloomfield.  
**NEW MEXICO:** GEO. H. HUNKER, Vice-President, Peoples Bank & Trust Co., Las Vegas.  
**NEW YORK:** WM. S. DOWNER, Secretary, Auburn Savings Bank, Auburn.  
**NORTH CAROLINA:** J. HOLMES DAVIS, Cashier, Peoples Savings Bank, Wilmington.  
**NORTH DAKOTA:** W. V. O'CONNOR, Cashier, First Savings Bank, Grand Forks.  
**OHIO:** H. W. GRANT, Vice-President, City Trust & Savings Company, Youngstown.  
**OKLAHOMA:** FRANK J. WIKOFF, President, Tradesmen State Bank, Oklahoma City.  
**OREGON:** E. H. GEARY, Vice-President, Security Savings & Trust Co., Portland.  
**PENNSYLVANIA:** H. T. MONTGOMERY, Treasurer, Savings Fund Society of Germantown, Philadelphia.  
**RHODE ISLAND:** J. E. BABCOCK, Treasurer, Wakefield Institution for Savings, Wakefield.  
**SOUTH CAROLINA:** CHAS. E. COMMANDER, President, City Savings Bank, Florence.  
**SOUTH DAKOTA:** WM. ONTJES, President, Sioux Falls Savings Bank, Sioux Falls.  
**TENNESSEE:** T. R. DURHAM, Vice-President, Chattanooga Savings Bank, Chattanooga.  
**TEXAS:** E. R. TENNANT, Cashier, Dallas Trust & Savings Bank, Dallas.  
**UTAH:** ELIAS A. SMITH, Cashier, Deseret Savings Bank, Salt Lake City.  
**VERMONT:** W. R. KINSMAN, Vice-President, Baxter National Bank, Rutland.  
**VIRGINIA:** D. A. PAYNE, President, Lynchburg Trust & Savings Bank, Lynchburg.  
**WASHINGTON:** R. R. FRAZIER, President, Washington Mutual Savings Bank, Seattle.  
**WEST VIRGINIA:** L. F. HALLER, Vice-President, Citizens Peoples Trust Co., Wheeling.  
**WISCONSIN:** B. M. SMITH, President, Bank of North Lake, North Lake.  
**WYOMING:** A. H. MARBLE, President, Wyoming Trust & Savings Bank, Cheyenne.



## **EIGHTEENTH ANNUAL MEETING**

### **SAVINGS BANK SECTION**

**AMERICAN BANKERS ASSOCIATION**

**At St. Louis, Mo.**

**September 29, 30, October 1, 1919**

The eighteenth annual meeting of the Savings Bank Section held at St. Louis, Missouri, opened with a conference of savings bankers which occupied both the sessions on Monday, September 29.

The first session was called to order at 10 a. m. Monday, by President Victor A. Lersner, who introduced Mr. Raymond R. Frazier, chairman of the Conference, and president of the Washington Mutual Savings Bank of Seattle, Washington.

**MR. RAYMOND R. FRAZIER, (Washington):** Gentlemen of the Savings Bank Section: In the midst of the most troublous days since the Civil War savings bankers from every section of the country have assembled here for an all day conference. We come together at a time when the civilized peoples of the world seem confused and confounded, wondering what calamity may overtake them next. It is as if we were sitting on the bobbing lid of a volcano, trustfully hoping to be saved from a complete eruption. It is a time for the exercise of patience and reason; for calm thought and prayerful attitude.

I firmly believe the strictly savings banks of the country with the tremendous power represented by their six billion dollars of resources are in position to render immeasurable aid in solving post-war problems, if we will but recognize the truth, grasp the opportunities that lie before us, and measure up manfully to our responsibilities to society.

In the report of the committee on savings legislation sub-

mitted at the Chicago convention last year,—which committee was headed by Frederic B. Washburn, aided by men high in the councils of the savings bank section, namely, Messrs. Knox, Strong, Sadd, Saul and Nichols, these prophetic words are found: "Only those institutions will survive the havoc of this cataclysm which are fit to survive. Savings bank executives have a responsibility which can be met only by the use of high courage and by a willingness to break the crust of ultra-conservatism which now not only retards their usefulness, but threatens their continued existence."

These men were speaking, no doubt, of the mutual savings banks of New England and the East. Stock savings banks, I believe, may be depended upon—wherever found—to make the most of their opportunities for real service to their respective communities, because in the very nature of things, stock savings banks must be aggressive and up-to-date if they are to enjoy any measure of success. I am an enthusiastic mutual savings bank man myself and am thoroughly saturated with the mutual savings institution doctrines and traditions; but the words above quoted were penned, I think, by mutual savings bank men, and I am inclined to agree thoroughly with the sentiments expressed.

Only in recent months I heard an officer of one of the largest mutual savings banks of the country openly prophesy that the mutual savings bank institution in this country is doomed. I have heard New England commercial bankers claim that the funeral knell of these institutions had already sounded; and they base these calamity assertions on the alleged fact that mutual savings banks in the East have descended into ruts from which they can never hope to emerge, owing to the ultra-conservatism of figure-head presidents and old-fashioned treasurers.

It is a good sign if a man recognizes his own weakness. "Know Thyself!" is a Divine command. If you New England savings bank men come to know yourself,—and it would seem you are—it is a most hopeful sign.

Under the able leadership of the officers of our Section of

the A. B. A. the way is being pointed to the broad fields of usefulness open to the savings banks of the country.

A bill is now before Congress appropriating fifty million dollars to be loaned through the Federal Reserve Banks for home building. What is fifty million dollars to the mutual savings banks? It is a paltry 1% of their resources. I wish these banks might notify Congress that they will set aside during the next ten years for home building purposes fifty times fifty million dollars and this is really not an extravagant wish, if the mutual savings banks will but recognize the wonderful opportunity that lies before them to serve the very men and women in their respective communities who have made it possible for the banks to exist. I mean the opportunity of making loans to home builders and extending the privilege of re-payment in installments—commonly referred to as amortization of mortgage loans. I sincerely believe here lies the greatest of all opportunities for our savings banks to help the country “survive the havoc of this cataclysm,” caused by the world war.

It is impossible to associate radiacism—Bolshevism—I. W. W.ism—with home ownership,—and home ownership is the only known insurance against these “isms.” Nothing is clearer to me now than the truth of the adage that “The American home is the safeguard of American liberties”,—just as the French home has proved to be the safeguard of French liberties.

Is it too much to hope that out of this wonderful educational work that the savings bank section has carried on under the administration of President Lersner and Secretary Harrison, the savings banks of the country may come to recognize the fact that it lies directly within their power, to insure this country against radicalism if they will but rise to the occasion and say to the honest wage earners of the country: “Here are our billions, offered to you at low rates of interest. Take this money and buy or build homes for yourself and pay it back to us in convenient installments.”

If the savings banks of the country will adopt this program of co-operation with the people, they will be encouraging thrift and systematic saving by a method that will insure a maximum of happiness and contentment to the people, and that will at

the same time effect a contribution heretofore undreamed of to the wealth, prosperity and safety of the nation. (Applause.)

We are all convinced that Mr. J. J. Pulleyn, chairman of the Committee on Amortization of Mortgage Loans, and incidentally president of the largest savings bank in the world, is a man with broad vision, and most effective in advancing a new doctrine. You will all be pleased to look upon him and hear his voice as he leads the discussion of this most interesting and timely subject.

## REPORT OF COMMITTEE ON AMORTIZATION OF MORTGAGE LOANS

JOHN J. PULLEYN, Chairman.

Gentlemen of the Convention: At a meeting of the Executive Committee, Savings Bank Section, September 25, 1918, the following resolution was adopted:

*"Resolved, That a committee on amortization of mortgage loans be organized to make a study of the most practical plans of amortization, and acquaint all members of this Section with their findings, together with the recommendations of this Executive Committee on the subject, and report the results of their activities at the next regular meeting of this Committee."*

Subsequent to this meeting the committee investigated the practicality of applying amortization to real estate loans. An earnest study was made of the field, covering all classes of lenders, in order to ascertain the best method for the committee's activities, and to arrive at most effective results.

On November 11, 1918, letters were written to 257 clearing houses requesting the names of banking institutions that use amortization. As a result we secured the names of about 1,200 institutions doing a mortgage loan business. Our purpose was to utilize these names in obtaining information about local mortgage markets. At the same time we communicated with eminent authorities in several European countries, and strove to make an investigation, particularly of the English mortgage loan methods. We learned that amortization is not much practiced in England. A mass of information was gathered. This was subsequently used in the articles of the committee's Bulletin.

### THE QUESTIONNAIRE ON AMORTIZATION

On November 29, 1918, a questionnaire was submitted to the banks named by the clearing house associations, as well as to the mutual savings banks and to life insurance companies, as follows:

"Perhaps there is no time more propitious than now for trustee-investors to consider a change in present methods of loaning on real estate mortgages.

"The suspension of building operations on account of the war, and the resumption of the normal flow of deposits into savings banks, will necessitate a demand for funds in the former case and a need for investing funds in the latter case.

"The stability and liquidity of the real estate loan are essential to safety and soundness of savings bank assets. This may be effected through mortgage loan amortization—the periodical repayment of a certain proportion not less than 2 per cent. per annum of the principal of the loan. Thus there was assured a decrease in the borrower's liabilities commensurate with any deterioration of the property.

"In order to crystallize some amortization plan for banks and other lenders, we are making a study of amortization as used by banks in European countries, as well as by banks in America. Any information or suggestions from you would, of course, materially aid us in solving the problem.

"Kindly answer the following questions and send the answers to me as soon as possible, in the addressed envelope attached.

"What is the method employed by you in making and caring for real estate loans?

"How long a term do you allow for mortgages, and what is your practice when loans mature?

"Do you require any reduction of the principal, periodically or by call? If so, how and when? (I should appreciate copies of forms used in calling loans or portions thereof, and a description of the method actually used.)

"Do you require a reduction of principal before renewal?

"Do you believe in the amortization of mortgage loans?

"Compliance with this request will enable us to make a report to you of our study; and this may be beneficial to you in the management of your institution.

JOHN J. PULLEY, Chairman."

Three hundred and fifty-four replies containing valuable information were received—information which did much to guide your committee in the nation-wide campaign subsequently conducted.

Summarized, the answers to each questionnaire show:

*First*, as to method of making loans: 226 banks, trust companies and insurance companies indicated that the property loaned upon is examined by some committee of the board of directors or board of trustees, including one or more officers. Only 11 banks, trust companies and insurance companies indicated that in making a loan the property is examined

only by an appraiser. Generally, this method is used by small banks in country districts.

*Second*, as to how long a term mortgage loans are made and as to the practice of the banks when the loan matures: 76 institutions make demand loans; 92 make loans on a one-year basis; 4 make them on a two-year basis; 76 make them on a three-year basis; 66 make loans on a five-year basis; 3 make them on a seven-year basis; one institution makes loans on an eight-year basis; 16 institutions make loans on a ten-year basis; 4 make loans on a 20-year basis; 42 institutions normally renew loans; and 87 permit loans to run on demand after maturity, generally reappraising them periodically.

*Third*, as to reduction of principal, periodically or by call—and how and when: 191 concerns do not provide for any prepayments, while 110 do. Five institutions provide for payments every three months; 35 semi-annually; 23 annually; and one bank requires a reduction of 3 per cent. Of the institutions that do not require prepayments, 68 provide that the borrower may make advance payments on principal. One institution permits 2 per cent. per annum to be paid; another permits 3 per cent.; and 3 institutions permit 5 per cent. One institution permits 7 per cent.; 3 institutions permit 10 per cent.; and 2 allow 20 per cent. to be repaid during the year. On the other hand, 2 institutions permit payment in multiples of \$25 per year on small loans; 10, in multiples of \$50 per year; 11, in multiples of \$100 per year; and one institution permits payment in multiples of \$500. Nineteen institutions do not specify any amount; 17 do not provide any time in which to make payment; 2 require payments monthly; 1 institution requires payments quarterly; and 26 institutions require them semi-annually; and 10, annually.

*Fourth*, as to whether reductions are required on principal before a loan is renewed or extended: 46 banks, trust companies and insurance companies replied in the affirmative and 240 answered no.

*Fifth*, as to whether the banks believed in amortization: 54 replied they did not, while 253 replied they did.

Your committee compiled this information, classified by banks, states, groups of states and by the whole country. The material served as an effective basis in conducting the campaign, which was very successful.

#### ORGANIZATION FOR THE CAMPAIGN

In organizing for the campaign, six men in each state were carefully selected to represent savings banks, trust companies and life insurance companies. A letter was written on February 10, 1919, by our chairman, inviting these men to act upon state committees. This letter had gratifying results—137 out of 167 men appointed accepting. Most of the others have since accepted.

On March 12 your committee sent the first issue of its Bulletin to

members of the state committees. In order to gain the co-operation of organizations interested in the subject, we placed on our National Committee, E. D. Chassell, Secretary Farm Mortgage Bankers Association of America; Joseph Hirsch, Jr., Chairman Agricultural Commission American Bankers Association; H. F. Cellarius, Secretary United States League of Local Building and Loan Associations; Hon. William M. Calder, United States Senator from New York; and R. Ingalls.

In this first issue the purpose of the campaign was described as follows: The war has brought about many benefits. It has taught us the great quantity and fine quality of our resources; it has shown the limitless potentialities of America, and the responsibilities America must take for world affairs. It has forced us to think in terms of decades and centuries rather than only of the immediate time.

"The stability and soundness of our economic structure are of primary concern. Basically this structure rests upon maintaining a proper system of land tenure, and the rights of parties identified therewith; it rests further upon the ability of owners of real property to develop their holdings in every way consistent with earning capacity.

"The more than \$10,000,000,000 of capital already loaned in America on buildings is owned by over one-half its population. The safety of this huge total of mortgage loans depends upon the financial ability of landowners to re-develop deteriorated property, as needed by business, industry and the general public.

"Before business was so complex as it is now, the plan of depending on personal acquaintance of the borrower with an official of the lending institution may have been an adequate safeguard. Calls for the decrease of the mortgage debt were consistently made, especially when demands for each were such as to make the call essential, or in the event the official considered that the mortgage security was so adversely affected as to make it necessary to reduce risks. But today, with our institutions grown large and numerous and with the realization that human life is not perpetual, a more scientific method of liquidating mortgage debt is desired."

The campaign had seven phases:

1. Semi-monthly bulletins issued to state committees during campaign;
2. Nation-wide publicity directed from headquarters;
3. Local publicity directed by individual committeemen;
4. Through the influence of state and national committeemen the subject of amortization of mortgage loans was discussed at meetings and conventions of insurance representatives, bankers and real estate and mortgage loan representatives;
5. Lenders on mortgage security were urged to confer with borrowers respecting benefits derived by the borrower from scientific and gradual reduction of loans; the greater efficiency of

- general building operations; the increase thereof by applying amortization; and the solution of the nation-wide housing and sanitary problem so seriously affecting city and community life;
6. Publication of a complete, competent and appropriate book on amortization, with tables;
  7. Publication of a comprehensive and thoroughly practical book on the various aspects of the mortgage loan market and the application of amortization—the book to describe the work of the national and state committees and to perpetuate the work of the campaign.

#### THE CAMPAIGN

All phases of the campaign, except 6 and 7, were earnestly pursued. Judging from correspondence from every section of the country, the campaign has taken deep root. It has been the main topic of conversation in many localities among mortgage lenders. Your committee submitted a questionnaire to state committees respecting phases 6 and 7. The consensus of opinion was that the book on the mortgage loan market and on the practice and tables of amortization could possibly be placed together in one volume. The committee felt that the time was not at hand for the publication of such a book. The work of your committee has been principally educational; and in that respect, as well as in building a strong and efficient national organization, the object has been accomplished.

Twelve issues of the committee's Bulletin were published. The topics treated were: The origin of long-term mortgaging, methods and variations of amortization; borrower's associations; amortization plans; importance of keeping in view the difference among the various amortization methods; non-maturing bonds and loans amortized on sinking fund plan of borrower's associations; sinking fund amortization plan as used by building and loan associations; joint stock land banks; some remarks on the Federal building loan bill; and proposed amortization under the national soldier's settlement bill. All told, 8,400 copies of the Bulletins were distributed, while 3,500 pieces of literature on amortization were submitted to interested institutions. Over 1,400 letters were written. The Bulletin served to lay the groundwork for considerable thought on the part of mortgage lenders as regards amortization. Several state committees have corresponded among themselves and with mortgage lenders within their respective states. As a consequence your committee feels justified in making the recommendations at the end of this report.

#### CHECKING THE RESULTS

On July 1, in order to ascertain the effect of the campaign, your chairman sent the following letter to the state committees: "You have



been receiving regularly from the office of the committee issues of the Bulletin, describing quite fully the aims of the campaign on amortization of mortgage loans.

"The Bulletin has formed a basis for our campaign, and has been widely commented upon as being most effective in stimulating thought favorable to the movement. Some states have called meetings of committees, and have gone quite thoroughly into the subject. Kindly answer the following questions as soon as possible:

- "1. What is your opinion of the Bulletin?
- "2. Have you been able to use any of the material contained in the Bulletin?
- "3. What suggestions have you for increasing the effectiveness of the campaign?
- "4. Has there been any increase in the application of amortization to mortgage loans in your community, and what is the general feeling toward the movement?
- "5. Would you favor an early meeting of your state committee on amortization of mortgage loans?
- "6. One entire session will be devoted to the discussion of amortization at the next annual convention of the Savings Bank Section of the American Bankers Association, to be held September 29, 1919, at St. Louis, Mo. Could you arrange to be present at this meeting and contribute to the discussion of the question?

"Thanking you in advance for any information and for answering these questions, I am,

Sincerely yours,

JOHN J. PULLRYN, Chairman,

Committee on Amortization of Mortgage Loans."

The opinion of all state committees is well expressed in these excerpts of several representative answers:

Miles Lewis Peck, treasurer of the Bristol (Conn.) Savings Bank, stated: "We have insisted on the reduction of principal on a good many loans which had never until now been pushed at all, although occasionally we had tried to and did get monthly or regular payments on some. The trust companies here do not seem to take an active interest in that kind of thing; and it is quite a handicap to our insisting upon it except in some special cases. No doubt if we could push over something a little more definite this year, it might help the cause, if the plan were practicable for conditions as they are today in savings banks."

William P. Goodwin, treasurer Peoples Savings Bank, Providence, R. I., stated: "We have no suggestion as to further developing the practice other than to keep the subject before those who have not appreciated the desirableness of this practice. A meeting of our state

committee might have some influence in the matter of general adoption of the practice; but there is a large majority of loaning banks that prefer not to require payments on principal and depend on regular inspections of mortgaged property to see that it is not depreciating. If satisfactory in this respect, this is all they care for. It is my view that mortgages should be amortized as rapidly as can be done without making the task oppressive to the borrower; this in order that the money may be free to lend again for further development of real estate. Another advantage from amortization is the conversion of fixed investments into moderately liquid assets. This, in the case of large institutions, means liquidity of real estate loans, and does away with the horrid bugaboo of non-liquidity of such investments of savings banks."

C. L. Sturtevant, treasurer Cheshire County Savings Bank, Keene, N. H., stated: "We cannot say that we have seen any increased application of amortization. In our own case, we think amortization can be applied successfully to a small number of our mortgage loans. These are wage earners or salaried persons, who buy a home and wish to pay something on it from wages or salary every month. We do not think amortization applies very well in the case of farmers, since they generally wish to put earnings into stock or tools; and so they are not in position to make regular payments at definite periods. Nor is amortization good for the business man who borrows on his real estate, and uses the money in his business. He usually wishes his mortgage loan to be a rather permanent affair, and so borrows from the national bank such large or small loans as may be necessary."

Samuel Bailey, Jr., secretary of the Dollar Savings Bank, Pittsburgh, Pa., stated: "The Dollar Savings Bank's mortgage loans are for a period of three years (principally on dwellings) for an amount not to exceed 50 per cent. of appraised value. If the loan is extended, we give the mortgagor the privilege of making payments on account at his convenience, unless the extension is granted for a definite period. During the past three years the writer can recall but two requests for an amortized loan. These we did not consider, but arranged with the applicants for a deposit of their money in this bank at 4 per cent. interest. Then we applied their credit balance to the liquidation of loans at maturity. As your Bulletin has given full information regarding amortization of mortgage loans and recommends the plan in such an intelligent manner that all to whom it has been presented would certainly give it careful consideration, I can suggest no better plan to increase the effectiveness of the campaign. Upon inquiry, I find that the savings banks and trust companies in this city are not interested to any extent in making amortized mortgage loans. Several strong financial building and loan associations here handle most of the business of this character. The amortization of mortgage loans has been so fully

explained by your Bulletin that I question whether much would be gained by meeting of the state committees. However, I do not feel fully qualified to express a definite opinion."

John W. B. Brand, treasurer Springfield (Mass.) Institution for Savings, stated: "The Bulletin has been very effective publicity. In this community it is difficult to apply a hard-and-fast rule to each mortgage loan. Pretty nearly every loan must be considered by itself. We, and other Massachusetts loaning institutions, have made only a few mortgage loans in the past two years; and so amortization has not been very widely considered. The sentiment among thinking members and borrowers is favorable."

A. E. Werkoff, president Lafayette (Ind.) Life Insurance Company, stated: "Amortizable loans have not yet become a factor in this community. The borrowers seem to feel that five-year loans are sufficient for their needs. But judging from renewals that are being made at the end of this period, we fully realize that the borrowers' plans often go amiss. I feel that the day will come when amortization will be very effective everywhere."

David Bingham, president Savings Investment and Trust Company, East Orange, N. Y., stated: "In general the drawback to applying amortization is that it would imply a tacit agreement on the part of the bank to carry loans indefinitely. At present we make them all payable in one year, and thereby have the opportunity of calling for payment or for reduction if we so desire."

#### ADAPTABILITY TO INSURANCE AND OTHER LOANS

O. E. Fifield, loan superintendent Massachusetts Mutual Life Insurance Company, Springfield, Mass., stated: "I have been very much interested in the Bulletin. It seems to me that the campaign for amortization is being conducted along wise and favorable lines. As to our company, we have been requiring the reductions of mortgages in the majority of our loans for many years past; and we believe thoroughly in this method, especially for small dwelling house loans, and in some instances upon loans covering central business properties. I do not think, however, it would be wise for us to adopt a hard-and-fast rule and require amortization in all cases. Our experience is that there are opportunities for investment in this class of security where the amount desired is not more than 20 or 30 per cent. of a very conservative value of central business property and where the borrower desires the full amount to remain during the entire loan period. In such cases where the security is good and conditions favorable, we are glad to have the investment stand for the full amount during the entire period."

Fred A. Howland, president National Life Insurance Company, Montpelier, Vt., stated: "You may be interested to know that our loan correspondents in the West say that they prefer our form of long-time

loan, which is not strictly an amortized loan, but which provides for a definite payment of interest and 2 per cent. of the principal for a fixed period of years. The reason is that the farmer is readily able to understand this form of security, where he cannot quite grasp the strictly amortized loan. Our correspondents say that, while he is willing to accept the amortized loan from the government on faith, he is reluctant to take it from private loan concerns; and so he prefers the long-time loan with a definite amount payable on principal each year."

Frederick S. Bown, treasurer George Washington Life Insurance Company, Charleston, W. Va., stated: "In the past one or two years we have made special efforts to induce our borrowers to begin payments in the early years of their loans, even if such payments are small. We cannot say that in doing so we have had amortization in mind, although it probably amounts to the same thing."

J. F. Heil, vice-president Wheeling (W. Va.) Bank and Trust Company, stated: "No increase in the application of amortization beyond the system originally followed is noticed. Reduction on mortgage loans now reaches from 5 to 10 per cent. annually. The bankers in this section fully indorse the movement, as they plainly see it results in increasing their business."

John Holcombe, president Phenix Mutual Life Insurance Company, Hartford, Conn., stated: "So far as I know, amortization of mortgage loans has not been adopted in this community. I believe, however, that there is a general feeling that something of that sort will eventually be advantageous both to investors and to borrowers."

Edmund A. Saunders, III, treasurer Atlantic Life Insurance Company, Richmond, Va., stated: "I have read your Bulletin with interest and found very instructive discussions on the subject under consideration. I think it would be well to continue the publication of the Bulletin. Personally this office has been unable to use any of the material furnished in the Bulletin. At this time we are not making a straight amortized loan, but we are applying the principal by having the mortgage loan reduced by the payment of an annual curtailment on the principal debt or else through the payment of premiums on life insurance, assigned as additional collateral for the mortgage loan."

"I think that most insurance companies will be glad to co-operate in the plan of having mortgage loans reduced by annual payments. Indeed, I look for a definite campaign to be made by a great many of the large insurance companies, whereby endowment life insurance will be sold in connection with home building projects. The endowment policy will mature the principal debt within a certain term of years. My experience with the loans which the trust companies have been making in the past is that they require too large an annual curtailment of the principal, and that by making a 10 per cent. curtailment, they have made it hard for them to collect such maturities and have given themselves a great deal

of trouble that has at times necessitated their advancing the fund to their client. If payment could be arranged so that it would not represent more than a 5 per cent. reduction, I think it would be much more applicable and would work very satisfactorily and be of advantage to the borrower as well as to the lender."

Livingston E. Jones, president Savings Fund Society of Germantown, Philadelphia, Pa., stated: "So far as this society is concerned, we have always made our borrowers on real estate mortgages understand that they were at liberty to pay off all or any part of their mortgage loans at any interest date; and we have encouraged them to anticipate the maturity of the mortgage."

Edward Harford, president Springfield Savings Society, stated: "Our loans on mortgages are made not to exceed 50 per cent. of the value of the property, and about three-fourths of our loans are on farms. As the amount of our loan is so small in proportion to the value of the property, we prefer a straight loan. Consequently our trustees are not very enthusiastic on amortization."

Rome C. Stephenson, president St. Joseph Loan and Trust Company, South Bend, Ind., stated: "Adopting the suggestions contained in the Bulletin, we have worked out a plan for making loans on the amortization plan. The borrowers to whom we have presented it are very enthusiastic over the same. At the same time the bankers will be enabled to make a good rate of interest on their money. Just at the present time South Bend is growing rapidly, and many houses are being built. We are so impressed by the campaign that we are making all our mortgages on an amortization plan so that they will be paid off within a certain period."

Forrest F. Dryden, president Prudential Life Insurance Company of America, Newark, N. J., stated: "Some suggestions contained in the Bulletin have been used in connection with amortization mortgage plan recently developed by the Prudential. While no extensive inquiry has been made, I feel that there has been an increase in the application of amortization to mortgage loans in this community. As you are aware, the Prudential is endeavoring to apply this principle; and I am informed that another large financial institution is also applying it where practicable."

#### FORMULATING A STANDARD PLAN

Difficulty is encountered in deciding upon a plan for use by all lending institutions. It is practical only to propose the greatest possible freedom in the method of lending on mortgages. In different sections of the country, and even in the same localities, mortgage lending conditions vary widely. Customs have been built up that must be taken into consideration. The reduction of a loan on a piece of property in a growing and desirable neighborhood, where values are bound to appreciate, might

not be advisable from the lender's standpoint. Similar uncertainties as to answers given present themselves in cases where the earnings from the property more than justify the amount of the loan; where it is virtually impossible to secure repayment of the principal when the borrower must take a part of the property earnings for living expenses, and has means only about sufficient to pay interest charges; or where a speculator-builder depends upon a second mortgage that must be paid before any attempt is made to reduce the first mortgage. All of these problems have to be taken into account in devising plans of amortization.

The system of calls for mortgage-loan reduction, long been in general operation, does not seem entirely equitable. The calls are made either when the property securing the loan is depreciating or becomes undesirable, or when the borrower meets with reverses that affect his ability to continue payments. So call loans are obviously unscientific in real estate mortgaging.

At present in New York a mortgage loan of a savings bank is limited to 60 per cent. of the value of the property; and in Connecticut it is limited to 50 per cent. of the value. In order to encourage home owning on any large scale, a second mortgage must be taken from the borrower. Hence there is an obstacle so long as the first mortgage remains unpaid. Ordinarily the salary or wages of the home-owner or home-seeker are sufficient only to meet the gradual repayment of the first mortgage.

Where an amount equal to from 45 per cent. to 50 per cent. of the value of real property is loaned to a borrower on his own home, difficulty may be experienced in insisting upon amortization. So the loans generally are made for a period of from one to five years; and re-appraisals are made periodically. Then in the event of depreciation, the loan may be renewed in whole or part. There are very few savings banks of any size that apply a hard and fast rule of amortization. Hence your committee hesitates somewhat in advising its universal application. However, where possible, amortization may be satisfactorily applied on relatively small loans, particularly where the borrower has no second mortgage, or when there is no necessity of his giving a second mortgage loan. In these circumstances an amortizable loan might be to the borrower's advantage, as well as to the advantage of the lender.

In the case of loans on dwelling-house property, amortization undoubtedly is advisable under present conditions, even though the lender, owing to the financial ability of the borrower, might not prefer it. Such loans may be made for a term of from five to ten years, with an annual or semi-annual payment of 2, 3 or 5 per cent. per annum of the original principal, depending upon the borrower's circumstances. Moreover, amortization may begin at the end of the second year, instead of at the first interest payment.

The amortized mortgage plan of the Prudential Insurance Company

of America, which was devised partly as a result of your committee's campaign, relates to loans upon business properties in approved localities secured by mortgages maturing in five years. Principal and interest are payable in semi-annual instalments. Credit is given the borrower semi-annually for instalments paid on principal, interest being accordingly reduced each six months. Payments on principal are so arranged that 3 per cent. of the principal is annually paid off. The borrower may pay more than the semi-annual instalment since the company agrees to accept additional payments, on any interest date, in multiples of the regular semi-annual payments, provided the amount does not exceed one-fifth of the original loan during any twelve-months period. Loans are not made upon dwelling properties where land and buildings together are less than \$4,000. On \$5,000 to \$10,000 loans at  $5\frac{1}{2}$  or 6 per cent. for a term of ten years, the semi-annual payments aggregate yearly 3 per cent. of the amount of the original principal. Semi-annual payments are calculated on the amount of principal remaining unpaid. Thus a \$10,000 loan at  $5\frac{1}{2}$  per cent. for five years, with a payment of \$300 a year, would have \$6,350 principal unpaid at the end of 5 years. Certainly little hardship can be experienced by borrowers on such a plan. The fact of paying the debt with surplus earnings is a help to thrift and independence.

#### FOR AMORTIZING FARM LOANS

Another plan is that of the National Life Insurance Company of Montpelier. This plan is used for farm rather than for city loans. In a letter to our chairman, the company explains that "it is inadvisable to require too large annual payments. An annual payment on principal of 5 per cent. (in addition to interest) might, in our opinion, be excessive in many cases, while provision that no payments can be made before the end of the fifth year will perhaps not suit all borrowers. It seems to us that a borrower who selects a partial payment plan, in preference to a regularly amortized loan, would in most cases be able to commence payments at the end of the second year if such payments are made so small as not to be burdensome. We have concluded to suggest a plan basing the partial payments to be required on the smallest amount in each group of loans—the groups being \$1,000 to \$1,900; \$2,000 to \$2,900; \$3,000 to \$3,900; etc.—having in mind in this connection the desirability of keeping payments of principal and interest as far as possible in even dollars. The payments required by such plan would be at the rate of 2 per cent. on initial amount of each group for the second to tenth years, inclusive; and 3 per cent. on the initial amount for the eleventh to nineteenth years, inclusive; the remaining balance to be paid at the end of the 20th year. The option is given to pay \$100, or multiples thereof, at any interest maturity after the first year. The payments provided for are the minimum; and

as much more can be paid as the borrower desires. Under this plan of 2 per cent. of principal to be paid from second to tenth years, inclusive, and 3 per cent. from eleventh to nineteenth years, inclusive; on a loan of \$2,000 at  $5\frac{1}{2}$  per cent. the principal is reduced at the end of the nineteenth year to \$1,100."

#### THE NEW YORK TENTATIVE PLAN

These two plans reflect the various ideas of our national and state committeemen concerning amortization, and show the difficulty of suggesting a definite plan for all to follow. Your committee, however, urges the use of some plan. The Savings Banks Association of the State of New York, through a committee which it has formed, is devising a tentative plan for the savings banks of that state. It may not, however, be any more effective than the plan of the Prudential Insurance Company or of the National Life Insurance Company. Amortization may, of course, be applied to any loan, but the manner of applying it naturally must vary. It is desirable for lending institutions to make loans on dwellings or small improved farms up to 70 per cent. of the mortgage property. A 6 per cent. loan amortizable in 10, 20 and 50 years, assuming the mortgaged property to be worth \$142.86 and the amount loaned to be 70 per cent. thereof, or \$100, may be presented as follows:

\$13.5868—Annuity, if the term be 10 years. At the end of the 5th year \$66.81 of the principal would remain unpaid. This is less than one-half of the property's value.

\$8.715 —Annuity, if the term be 20 years. At the end of the 5th year \$88.11 of the principal would remain unpaid. This is a little over 61 per cent. of the property's value.

\$6.3444—Annuity, if the term be 50 years. At the end of the 10th year \$96.04 of the principal would remain unpaid. This is about 68 per cent. of the property's value.

Thus, the principal reductions offset any depreciation of property values. Moreover, they constantly widen the margin of security—a process that becomes very pronounced in the latter years of the term. In France and in almost every other European country reducible loans up to 70 per cent. of the property's value are a general practice for dwellings and small improved farms. The borrowers are, of course, controlled through clauses in the mortgage contracts and, as a rule, the lenders erect the buildings or put the improvements on the property and thus have positive knowledge of the values.



## METHODS FOR APPLYING THE PRINCIPLE

Your committee, therefore, recommends the following for savings banks, to wit:

1. Amendment of state laws so as to empower savings banks to make long-term loans, if amortizable, up to 70 per cent. of the value of the mortgaged farm or home.
2. Amendment of state laws so as to empower savings banks to invest in shares and mortgage debentures of companies or associations formed exclusively for making amortizable loans, not exceeding 70 per cent. of the value of the mortgaged property, for the purpose of helping heads of families to acquire or improve small farms or homes in the bank's locality.
3. The opening up by each savings bank of a department of farms and homes—such department to give especial attention to the building by the bank of sanitary dwellings and to the buying and improving by the bank of small farms in its locality for sale on long-term mortgage.
4. Amendment of state laws so as to empower savings banks to guarantee such mortgages, but only to other savings banks in the same state.
5. A closer business relation among savings banks, especially through introduction of the practice by larger banks of buying such mortgages from smaller banks.
6. The continuation of the patriotic and intelligent endeavor, so intense and effective during the war, of savings bank officials and employees and the bending of their energies now to increase agricultural production and to improve housing conditions, through their departments of farms and homes and by encouraging public-spirited citizens of their localities to assist in the work by forming companies or associations to take second mortgages on such property, in accord with practices prevailing in France, England and some other European countries.

There is a shortage of dwellings in all large cities and a shortage of small improved farms everywhere. The movement to supply these shortages through agencies and funds or credit of the Federal and state governments has gained great headway. If the object of this movement should be accomplished, another precedent would be established to the detriment of savings banking as carried on by private enterprise. Hence, the importance cannot be stressed too pointedly of the necessity savings banks are under to take an active interest. Your committee admits that loans, even if amortizable, reach the limit of safety if made up to 70 per cent. of the value of the mortgaged property. Such a limit would, of course, be downright dangerous, if the government should be the lender.

European experience, however, shows that the limit is practicable for periodically reducible loans that private concerns make on properties which they themselves have improved and over which they exercise control through clauses in the mortgage contract; and it is only to such cases that your committee's recommendations extend. As to the second-mortgage companies or associations to supply the cash payments which the borrower must make on the purchase price, your committee is of the opinion that these could best be financed by such men and women as composed the councils of national defence, the liberty loan committees and food administration committees, who might assume the risk involved in the spirit of local public service.

#### RECOMMENDATIONS FOR SECTION WORK

Your committee further recommends:

(a) Constant study with a view to preparing definite plans, and would earnestly suggest that the campaign of the past year be continued by the new committee.

(b) That before the end of next year the committee publish a book which shall include amortization tables, a description of the mortgage loan and methods of amortization.

(c) Continuation of the state committee, and two meetings at least of state committees within their respective states during next year, besides a meeting of the chairman of state committees at the convention of the American Bankers Association in 1920.

Your committee has endeavored to protect the mortgage loan market in every possible way, through co-operating with the Federal Legislative Committee of the Savings Bank Section. The committee has also given warning of the probable effect of such measures as the Federal home loan bill, Federal building loan bill and the national soldier settlement bill introduced in the Sixty-sixth Congress. The defects of these bills have been explained to all state committees, and they have each communicated with representatives in Congress with excellent results.

Your committee appreciates the co-operation of the American Bankers Association, as well as that of the state committees on Amortization of Mortgage Loans, in the publicity campaign, so successfully conducted.

**MR. FRAZIER:** This splendid report from the Committee on Amortization of Mortgage Loans will be discussed from the economic standpoint and then with special relation to insurance company, trust company, and savings bank loans. We will first hear from Mr. R. Ingalls, director of research, Bankers Statistics Corporation.

## AMORTIZATION FROM THE ECONOMIC STANDPOINT

R. INGALLS

The agitation for amortizing real estate loans was started by the committee appointed for that purpose by the American Bankers Association upon request of its ex-president, Myron T. Herrick, at its annual convention in New Orleans in 1911. The committee also started the ill-starred rural credits movement that went wild from being misunderstood and not generally supported by bankers. Last spring, or eight years afterwards, the Association resumed the agitation, and through the Savings Bank Section appointed another amortization committee. I have had the honor to work in Europe and at home for both committees.

If the Association had never paused—if during all these years it had been doing what Pulleyn and Harrison have now finally got it to do—there might not have been a federal farm loan act, nor a North Dakota public bank, nor laws in Maine and Oklahoma for lending school and public funds in risky ways, nor constitutional amendments adopted or proposed in North Dakota, California, Kansas, Missouri, and Texas for using the cash and credit of the state for farm mortgaging. The Association's members have the means, if they will, to do all that is possible for the government itself to do in relieving the heavy shortage of dwellings and of small improved farms. About as bad a thing as there is for bankers is to start a good idea and let it drift.

## SOCIALISTIC TENDENCIES

The constitution of nearly every state has a clause restricting to public and general uses any funds raised by taxation or upon the state's credit. These clauses were inserted as the result of the extravagance, favoritism, and failures of public banks and subsidized development, colonization, canal and railway projects in the early part of the past century. The federal constitution has a similar clause. Nevertheless, taxing and appropriation powers are now being utilized again to give special favors to sections, localities, and classes. Furthermore, the nationalization of banking and of the land—the socialists' first aim—has made remarkable headway.

The postal savings banks are purely governmental. The federal reserve system is dominated by the government, and its notes are the government's obligations. These, however, do not grant long-term amortizable real estate loans. They are mentioned simply to show that they are stamped by the same doctrine that characterizes the U. S. Housing Corporation, the federal farm loan system, and the U. S. reclamation service. These three were created especially to embark the government in the real estate and long-term credit business; and having achieved this almost without a protest, they have naturally

become the chief precedents for having the government complete with any private person or concern that has a dwelling or a farm for sale or rent, or a dollar to lend on such property. This new plan is concealed under misleading colors, as was also the case with other radical plans already accomplished.

#### THE U. S. HOUSING CORPORATION

The U. S. Housing Corporation, created for housing government employees, was chartered only three and one-half months before the armistice was signed, and it could have stopped expenditures then at perhaps \$20,000,000. But it has spent or allocated all of \$110,000,000 appropriated for it. The 6,000 houses which it owns were finished, contrary to the law's intent, after it knew that they would not be occupied by government employees. They are being rented as well as sold to anybody. The length of the leases and the terms of the sales show no intention whatever of closing up affairs. Moreover, Congress has given the corporation \$2,068,970 for current expenses, and prescribed no time for the dissolution ordered.

So the corporation seems to have come to stay in the long-term mortgage business, at least in the District of Columbia and the 23 states where it operates. It may acquire by condemnation any property it desires. It buys, builds, rents, and sells without thought of profit, as shown by the fact that its assets cost \$28,000,000 more than they are worth, while its expenses are \$2,922,273 against \$3,279,785 gross income a year. This leaves barely one-third of 1 percent of the capital for net earnings, in spite of there being no taxes nor interest paid on money received. The wear and tear of properties will cause heavy deficits by next year. Privileges make the corporation a rival too formidable for private builders. But its wastefulness will perhaps prevent it from getting any more appropriations; and it can't use the government's credit.

#### THE FEDERAL BUILDING LOAN BILL

Failed in this attempt to have the government supply the one million new dwellings said to be needed each year, Secretary of Labor Wilson and other socialists hope to effect the same thing through the federal building loan bill recently introduced in Congress by Hon. John J. Nolan. This bill is a scheme to federalize the building and loan associations and to subject their officers and other persons dealing with them to the jurisdiction of the U. S. courts; also to compel the secretary of the treasury to give these associations free advertisement and enable him to find funds for them at the rate of 5 percent or less for interest. The government is to pay overhead expenses and become involved in the risks; and yet it is to have no public appraisers to select its security and protect it from loss.

If the bill be passed, the secretary of the treasury will have a new bureau through which he may charter as many federal building loan banks as he pleases. He must begin with eleven, each with an exclusive district and a registrar paid by the government. Only building and loan associations formed under state laws may be stockholders or borrowers. As you may know, the assets of these associations vary with the laws and comprise not only mortgages but also personal and short-term paper. Much of this represents invested money that is withdrawable. In other words, the associations in nearly all the states are saving institutions and so should not use their credit.

Nevertheless, the Nolan bill provides that the associations in a federal building loan bank's district may invest one-tenth of their assets in its double-liability shares, that they may borrow from it until their indebtedness equals 60 percent of their mortgage assets, and that they may be required to guarantee all mortgages given as collateral. Thus, if state laws are changed to permit this, building and loan associations could pyramid on their credit, contract liabilities greater than their assets, subordinate the rights of their own members to those of outside creditors, and make themselves dangerous indeed for savings.

#### ENDANGERS BUILDING AND LOAN ASSOCIATION

In the United States there are 7,484 building and loan associations with 4,011,401 members and \$1,898,344,346 of assets—the greatest saving system exclusively managed, financed, and used by members in the world, and standing unrivaled for soundness and service. The outcry against the destructive designs on this magnificent system ought to be nationwide. But good judgment has been warped by the promise of cheap loans and tax exemptions. If these huge assets could be handed over as collateral to Nolan banks, they would all be exempted from national, state, municipal, and local taxes. Then tax-exempted bonds could be issued up to 80 percent of 75 percent of the mortgages of \$5,000 or less on dwelling-house properties. Or, if the banks did not care to segregate the mortgages, they could use the entire assets as collateral for tax-exempted short-term paper issued to raise money for temporary advances.

The only limit as to size of advances is the requirement that no association can invest more than one-tenth of its assets in the bank's shares, or receive funds from it in excess of 20 times such share holdings, or become indebted beyond the extent mentioned above. The repayment might be set for any long term, provided a little be paid back semi-annually. The interest maximum is  $4\frac{1}{2}$  plus  $\frac{1}{2}$  percent commissions. As you know, usury is not forbidden anywhere to building and loan associations. So they could relloan these advances at

any interest rate and on any security or for any purpose legal under state laws.

The bonanza would yield 12 to 15 percent dividends while it lasted. But a crash would surely come some day. The bill covers farm as well as city real estate, and its tax-exempted and highly privileged bonds are intended for both alike. So since the loans may equal 70 percent of mortgaged property and run for any short or long term, it threatens serious interference with the federal farm loan system, which lends only up to one-half the land's value plus one-fifth the value of improvements and for periods fixed by statute; it also presents other grave problems.

#### BAD EFFECTS OF THE FEDERAL FARM LOAN ACT

The Federal Farm Loan Act, like the Nolan bill, promised to do unqualified good without burdening the government. However, the system got from the treasury department \$8,892,130 without interest for capital stock, \$8,150,000 of 2 percent deposits, \$5,000,000 without interest to lend without security to distressed borrowers, \$149,775,000 for buying its own 4½ percent bonds, and \$943,440 donated for overhead expenses—a total of \$172,760,570—at a time when the government's own obligations were yielding 5 per cent. In addition it received large subsidies in the form of rent-free headquarters, free mails, and advertisements at public expense. The system has issued \$321,255,000 of tax-exempted bonds and is adding millions to them every month, to the great impairment of the government's credit.

Such was the system's condition on July 31, 1919; and the cash obtained up to that date from the government equaled nearly 70 percent of the \$246,722,568.27 mortgages then held by the federal land banks. This amazing fact clearly shows that the system in the fourth year of its existence is still unable to stand on its own feet, despite its totally tax-exempted bonds and numerous other privileges. The farmers, however, are not to blame, since an amendment in 1918 of the federal farm loan act barred them from the management and lodged it completely and perhaps finally in the federal farm loan board. So the board is entirely responsible for the unsatisfactory state of affairs.

The enhancement of farm values, caused by the federal farm loan system's easy money, has brought on the wildest land speculation in history. Thus the system has made agricultural development and operation more expensive, and is a factor in the high cost of living. Like causes have the same effects. So the federal building loan bill is backed by the weakest of arguments, but it will be hard to defeat. The radicals who are seeking to put banking and the real estate business under the government's control are responsible also for the national soldier settlement bill introduced in Congress by Hon. F. W. Mondell.

This would duplicate the work of both the federal farm loan system and the federal building loan bill.

#### THE NATIONAL SOLDIER SETTLEMENT BILL

The Mondell bill provides that the government shall lay out town sites and prepare farms adjacent to the sites or anywhere. The land is to be acquired by condemnation or voluntary sale. The government is to erect the buildings, put in the improvements, equipment, and fixtures, and supply heat, light, power, transportation, and marketing facilities. The furnished homes and the ready-made farms, with first crops planted, would of course be saleable under the general land laws to any citizen. The government will assume all the risks of the development, since the properties when improved are to be sold, not at what they cost but at what they may bring. The sales will be on a 40-year annually reducible mortgage.

Five percent of the purchase price must be paid down on a farm, but no cash payment will be required on an urban home. If a farm settler be an ex-soldier, the government will give him a 10-year loan of \$1,500 for improvements and a 5-year loan of \$1,200 for live stock or equipment. The cash sums of 25 percent of the improvements or livestock, 60 percent of the equipment, and 5 percent of the farm are to be supplied by the government as wages at not less than \$4.00 a day to settlers working on the projects. The government will charge only 4 percent interest a year, and in case of ex-soldiers will grant extra loans and condone defaults during hard times. All property will be exempt from taxes and old debts, thus making the project a retreat for deadbeats.

#### SAVING THE U. S. RECLAMATION SERVICE

The scheme is a soldier measure only on its face. The real object is to enlarge the functions of the U. S. reclamation service and extend its scope over the entire country—thus realizing one of the most cherished ambitions of the socialists. This done, the managers would also be better able to hide the troubles of this almost bankrupt concern and to appeal for funds to keep it alive. At present the service is financed by the sale of public land in 17 states, royalties from potassium deposits and the free use of timber and stone on the public domain, the sale of town-site lots and power earnings on irrigation projects, repayments of settlers and water users, and various minor accruals. The total from these sources is \$141,890,917.52.

The gross expenditures for reclamation, including general expenses, are \$150,579,437.29—showing an \$8,888,519.77 loss. On account of this \$7,500,000 was recently appropriated by congress. The assets are booked at \$180,595,336.64. They include deferred operation and maintenance charges, unaccrued construction charges, and estimated unearned value

of construction work, to offset liabilities of the same amount. The service undertook to reclaim 3,081,480 acres, has reclaimed 1,502,468 acres, and actually irrigates 1,026,663 acres. But of these only 966,784 acres are cropped, while 186,927 acres are damaged by seepage or alkali.

#### THE SERVICE'S HEAVY EXPENSES

This means that the government's liabilities average \$58.65 for every acre undertaken to be reclaimed, or \$120.19 for every irrigable acre, or \$186.80 for every cropped acre; or \$2,888 for each of the 62,477 farms promised, or \$7,154 for each of the 25,244 farms occupied. If soldier settlements should cost like this, they would bankrupt the government are additional to the purchase price of the land. Only 51.5 percent long before many veterans were taken care of. The reclamation costs of the land belonged to the nation, states, and Indians. The remaining 48.5 percent was owned privately and sold, in alleged instances, as high as \$200 and \$500 an acre. Thus the government plays into the hands of speculators, and is encouraging absentee landlordism.

The purchase price is generally paid spot cash or else secured by short-term mortgage. The federal farm loan board, however, permits the land banks to make 36-year loans subordinate to reclamation costs assumed by settlers. These costs were originally to be repaid in ten annual instalments; but in hope of avoiding defaults they have been divided into 20 annual instalments. Nevertheless, although the settlers are not charged any interest, they paid back in 1918 only \$351,-290.26. On a 20-year basis they ought to have repaid \$2,603,785.

The fact is, on some of the projects the settlers are resisting payment; on other projects they complain of expensive management and defective construction; and on all projects many settlers are feeling that the government should entirely relinquish its claims and treat them as free homesteaders. In spite of much paid publicity through movie pictures, newspapers, magazines, and lecturers, the government has been able in 18 years to settle less than one acre of every two acres watered. Settlers now on the projects are not only grumbling over their outstanding obligations, but are also worrying over the seepage and alkali that have already damaged an acreage equal to one-fifth of all used land.

#### AFFAIRS IN BAD SHAPE

Mr. A. P. Davis, director of the service, announces that all the large projects must be drained, and yet he admits that nobody can tell what a drainage system will cost or do until after it has been put in. Supplemental contracts for this would render the present burdens of the settlers unbearable. So the probabilities are the government will pay for the drainage, just as it is now spending for maintenance and repairs large sums that can never be recovered from settlers. The



unaccrued construction charges amount to \$52,172,881.97. This with equipment is all the service has of income-producing resources for its expenditures, now amounting at 3 percent compound interest to \$192,872,973, as against \$180,593,366 total assets. This, with \$7,-300,000 repairs to be done leaves a \$19,579,607 deficit and the service would now be defunct had not \$20,000,000 been especially appropriated to keep it alive.

Among the assets are a monthly bulletin, published at public expense to create sentiment for government ownership, and plants for heat, light, power, and transportation. About 343139 people living in 162 towns are thus accommodated. But just as the farm settlers pay no interest, so this non-rural population is obliged to pay only the cost price. Uncle Sam is not expected to make money; and he doesn't. The cost of maintenance and operation is \$1,275,084.54, while the revenue is only \$350,846.31. All construction work now has ceased. But quite evidently this is not entirely due, as explained by the service, to the high cost of labor and material. Longstanding financial difficulties may be assigned as the chief cause.

The service, hidden in the mountains and arid regions and unknown to but a few voters, has, like every other unsupervised bureau, acted pretty much as it pleased and embarked on costly socialistic ventures undreamt of at the start. Conditions were misjudged, estimates calculated too low, and operations carried on without restraint by any outside audit of accounts. All this led to the development of land in advance of the need for it and to the accumulation of useless assets and liabilities. The service, judged by its record, is not the proper agent for the more daring plans proposed by the national soldier settlement bill.

#### GOVERNMENT VS. PRIVATE ENTERPRISE

Yet California, Maine, Missouri, Montana, Nevada, Oregon, South Dakota, and Utah have enacted laws to enable private tracts to be condemned for the enlarged service's schemes. New York and other states in the East as well as in the West are falling in line; and the nationalization of the land is at hand. Some of the states authorize also the condemnation of personal property and the use of public funds and bonds. A suit will soon be brought to abolish the existing land bank of New York, on the grounds that it was created by special act contrary to the constitution. A suit is pending to test the constitutionality of the federal farm loan act. With these concerns knocked out, all the new legislation would perhaps be nullified. But the radicals are too zealous to await court decisions.

The best way, in my opinion, to meet the situation, is for banks—especially savings banks—to use their funds more largely in the locality of source, and give more attention to household economics and to

farm and home problems. Lending on small property, particularly up to 80 or 70 percent of its value (as may be required) presents some risk, of course. But this would become negligible, if a bank could itself improve the farm or build the dwelling, and then retain strict control through clauses in the mortgage and have the loan amortized semi-annually or quarterly. In Europe the business thus conducted is so safe that even second-mortgage companies operate successfully in advancing to borrowers the cash they must pay on the purchase price.

#### BEST AMORTIZATION METHOD

Amortization is the gradual reduction of a loan by periodic and equal payments that include both interest and part of the principal. The advantages to the lender are that it offsets depreciation of property values, constantly widens the margin of security, and permits a gain by compounding interest on money invested. The advantages to the borrower are that it enforces thrift, makes savings available for extinguishing debt, and renders foreclosures improbable. In one method of amortization the repayments are, as soon as they are received, applied to reduce the borrower's loan. In another method the repayments are placed in a sinking fund; and when the borrower's account in this equals the loan, his debt is canceled.

Under the sinking-fund method the borrower may make payments of any sums as often as he pleases in addition to obligatory dues. He may also be allowed to stop payment and even to withdraw his credits in the fund. All this is possible because, differently from under the first method, the lender's mortgage claim stays intact for the face amount until the borrower's payments at interest balance his debt. So the sinking fund method is the best for the borrower, since under it during hard times payments may be suspended and leniency shown without impairing the lender's lien against the mortgaged property.

In building and loan associations the borrower makes payments, not on the mortgage but on shares. Hence these associations use the sinking-fund method—but not with all its privileges. Savings banks, however, could use this method in its entirety by opening up a deposit account with the borrower. The only difficulty would be to maintain the interest rates in the account and on the mortgage at a parity. But the trouble from this as well as all the bother and cost of details in helping customers to acquire dwellings and small farms would be compensated by the increase of general business and the better standing of the banks, resulting from their activity in important affairs of their communities.

**MR. FRAZIER:** We will now hear from Mr. Osgood E. Fifield, Superintendent of Loans of the Massachusetts Mutual Life In-

insurance Company of Springfield, Mass., as to the insurance company viewpoint.

## MORTGAGE LOAN INVESTMENTS FOR LIFE INSURANCE COMPANIES

OSGOOD E. FIFIELD

In addressing you on the subject of real estate mortgage loans I am not unmindful of the fact that many of you are men of wide experience in the making and handling of such loans, and much that I will say may be that which you already know. In the brief time allotted to me I shall only attempt to outline a few observations gleaned through more than twenty years of service in the investment department of one of the old line life insurance companies. During this period of active operation in twenty-six states, I have come to know that we have much in common with the bankers, and especially the savings bankers, of this country, and it seems to me that it is well worth while to pause for a moment to compare notes and discuss this subject together.

Within the recent years our life insurance companies have so increased their assets that they now control the principal funds of this country that are available for what are termed "long time investments." These funds are accumulating rapidly, and each annual statement of the various companies shows large gains in resources for such investment. One of the great problems in life insurance today, that is receiving the most careful attention and study by the officers of each company, is the question of the safe investment of its funds in good interest-bearing securities. These vast funds, constantly and rapidly increasing, are, and always will be, wholly "trust funds." It is the accumulation, if you please, in depositaries, of a portion of the savings of millions of our citizens, to be disbursed at their decease in accordance with their expressed wishes to the ones they loved and cared for during their lifetime. The careful safeguarding of these funds and the carrying to completion of the expressed desires of this vast confiding public is, to my mind, the most sacred trust that can be imposed upon the officials of the companies. The principal fact underlying all of what are known as the "old line" life insurance companies is that if they should cease to write any new business today and the affairs of each company were to be closed up, the resources should be so invested that they would be sufficient to carry through to completion every contract for insurance now in force. With these matters in mind we can more readily understand that the foremost consideration in investing these funds is the security, and that the rate of interest or the earnings on the investment become secondary. Some one has

said, "The difference between success and failure is but a hair's breadth." This is often true of investments. Investors very often take too many risks and succeed or fail by a very narrow margin. Perhaps it was only one decision, made in a moment, but the results were far reaching, involving endless trouble, loss and failure.

#### REAL ESTATE AS SECURITY

Within the past five years the financial world has been much disturbed. Possibly never again, and probably not within the lifetime of anyone now living, will there occur another crisis that will so test the foundations of all securities. In the stress of recent financial disturbances, real estate mortgage loans have again demonstrated their safety and stability to discerning investors. Real estate is about the only form of wealth that endures. It is the basis of our material wealth and prosperity; but even so, it has no fixed value. It affords opportunity for great speculation, with success to some and ruin to many. Other classes and forms of investment come and go with the passing years, affording to capital a high death rate. Not all real estate mortgage loans are good. Many mortgages are placed on undesirable security. Some mortgages on good security are for such large amounts that the margin between the amount of the loan and the real value of the property is very small or lost altogether; or, the security may be good and the amount of the loan reasonable, but the borrower an unreliable quantity. If, then, real estate is the most staple security and offers the best field for safe investments yielding a fair rate of interest on the money loaned, the question is that of making a wise selection of securities. Here is where knowledge and judgment are valuable, for mistakes may surely become costly. If the real estate is well selected and the margin of security sufficiently large, there will be no shrinkage in the value of the loans, no fluctuations and no marking down for annual statements.

Investors can always find plenty of borrowers, but the very essential and most difficult question is that of selecting from all that are offered the ones that will keep the security in good condition, pay the interest and taxes promptly and repay the principal at the maturity of the loan. We find that it is a real and serious problem always to select the loans that carry the maximum of security and the minimum of risk. Just now we seemingly are passing through a period of great prosperity, and many men and corporations are accumulating wealth rapidly. It is safe to say that a large percentage of this wealth will be unwisely invested by the alluring prospect of safety and good income. I believe that the reason for so many disappointments and failures is on account of individuals and corporations purchasing investments without much knowledge as to the securities. They appear to act on the advice of some friend or party who may be personally interested

in the security or whose judgment is not the best. They have no clear personal knowledge of the security and its possibilities. A lender must always have in mind possible depreciation in values on account of shifting of business centers, panic, hard times, changes in neighborhood or locality, reputation or public sentiment, which are uncertain quantities but which positively affect values."

With the resumption of business and building activity throughout the country, there will no doubt be a very large increase in the demand for mortgage loans. Lenders will seek to place their funds so as to increase their income, and borrowers will be abundant—with all classes and quality of security. The great danger will lie in an unwise selection of security, as to its character, location or the amount loaned on it, and great care must be taken not to become unduly influenced by present conditions as to increased cost of building material and labor that may enter into the cost of new buildings.

It is well to bear in mind that the average borrower knows very little about what constitutes good security. In most cases he is in the market for as large a loan as he can obtain on the security, and is often willing to pay an increased rate of interest or a large commission to a broker in order to secure the amount he wants. He seemingly forgets that it is oftentimes much easier to create a debt than it is to pay it, and that disappointments in the income from property and other sources are of common occurrence. Very frequently he over-estimated his real worth, his income and his ability to meet his obligations.

We can all agree that it is a very easy matter to lend money, for there are always plenty of borrowers, but the very essential and most difficult question is that of selecting the good and staple security. This surely is a great problem. It is the rock on which many a fortune, a good business or a prosperous bank has met misfortune or complete ruin. It is never a good policy to loan to a man who has a reputation for speculation and for creating debts and avoiding payment of them, no matter how good the security may be; such loans are very apt to lead to trouble. It is also unwise to over-loan on security merely because the property at the time is owned by a man who is considered wealthy. Life is uncertain and fortunes fade. To do a successful real estate loan business we must be conservative but not pessimistic. We must have and maintain an inquiring mind, that will not be satisfied with anything less than a complete knowledge of the security, its location, possibilities, future and ownership.

#### FARM AND URBAN LOANS DISTINGUISHED

Great care must be taken in choosing desirable fields for operation, the selected territory must be constantly watched, and changes for betterment or deterioration carefully noted. It may be stated that there

are two separate and distinct fields for operation in real estate mortgages, farm lands and real estate within the corporate limits of cities and towns. Well improved farms in the best agricultural sections of the country are first class security for mortgage loans, the only questions being the real value of the farm, the probability of its being kept up to a high standard of productiveness during the period of the loan, and the amount loaned on the property. It is well to bear in mind that the price of farm lands has greatly increased within the past few years, so that nearly all mortgages placed some years ago on lower values are now good if the loan should be called, and the fact that such loans have been satisfactory or are good may lead lenders into the error of over-confidence in this class of security. Up to the present time the productiveness of the farm lands has been, to a very large extent, on new lands or lands that not long ago were unbroken prairie or uncleared forests. These lands were made more valuable by buildings, fencing and drainage, and with these improvements, together with improved highways, better railroad facilities and markets, values advanced rapidly.

The recent war has greatly increased the income from all farm lands, because all surplus produce, grain or livestock can be sold promptly and at very largely increased prices. In a word, farm lands are high and the farmer is "in the saddle." With the high prices for farm products that have been prevailing, there has been the temptation to put all available acreage into crops, and it is fair to assume that a large percentage of farm lands are overworked and will require rest or the application of commercial fertilizers. The farm buildings are now older, of less value or in need of repair. Farm labor has become a serious problem; it is increasingly hard to obtain and frequently of very poor quality.

Another factor to be considered is the recent advent of the Federal Farm Loan Bank. With this added competition and liberal appraisers of values, it appears that the farmer will have little difficulty in obtaining the loans he may desire on any and all kinds of farms.

To state the situation briefly as I see it, farm loans enjoy a first class reputation and lenders want them. Farm lands are on the crest of the wave in value and productiveness without the use of expensive commercial fertilizers. This is a good time to exercise additional caution and careful foresight.

In the consideration of loans on city property, we find that it is a subject which in many ways is much different from farm loans. Before deciding on a loaning center, a city must be studied and conclusions drawn relative to its probable continued and healthy growth, permanency of the business center, diversified industries, reasonable tax rates and collection laws, and, what is quite essential, reasonable land values. It must be remembered that there is no fixed value to

land. Its value is a mere matter of opinion, based on the income it can produce or the purpose for which it is desired. It may be worth much more to one man than it is to others, all depending upon the object in the mind of the purchaser. We are frequently told that land has sold for much less than it is worth, and sometimes, though not often, we are told that it has sold for more than it is worth. Local people have local interests and local standards of values, and it is quite natural to expect them to be optimistic on values and to base their opinions on future prospective income and enhancement. We may expect them to value the property at the top notch.

We must be conservative. Our values must be placed at a figure that we feel confident will be maintained during the period of the loan desired. We must exercise even more caution than we might if we were loaning our own personal funds. We must have the benefit of all doubts. We should consider the position of a lot with reference to the business center or most valuable corner; to streets, with their width; to alleys; to vacant land; to whether it is a corner or an inside lot; to frontage in relation to its depth; to utility, shape, waste, and number of purposes for which it may be used; to the character of its location and class of business done in the surrounding territory. We should note the "For Sale" and "For Rent" signs in the locality; note its distance from the largest retail stores, banks, public buildings, railroad stations and the best residential and business sections; observe its location with reference to the routing of street car and inter-urban lines; note the delivery of the greatest number of passengers at a given point, and the corner where the greatest number of people enter cars to return home; consider the possible shifting of the best retail center from or toward the lot by prospective public improvements or changing of railroad stations or terminals.

#### VALUE OF SPECIAL PURPOSE PROPERTY

Retail business property becomes more or less valuable in proportion to the volume of foot travel in front of it. The most congested corners and blocks where the largest number of people gather to trade are the most valuable property in any city. This being true, we can understand that the best corners and blocks are by no means permanent but are very likely to, and in most cities do, change and shift with the development and growth of the city. Cities differ, and what may cause increased values or depreciation in one may not affect another. This requires constant study—to determine the causes and effects that produce the shifting of locations and values. What is known as the most congested business district of a city is that portion where the bulk of the retail, and possibly a portion of the wholesale, business is done, and this territory is desirable for mortgage loans provided such loans are made for a limited period and for not to exceed 50

per cent. of a conservative value of the property, the security to be frequently examined to note changes for betterment or deterioration.

Wholesale and jobbing property is not so dependent upon a location that is frequented by pedestrians as it is upon one that is convenient to railroad sidings and terminals, inasmuch as the question of cartage for incoming and outgoing freight is the large item. Then, too, a wholesaler and jobber depends to a very large extent for his sales on agents or traveling salesmen, and the location of the office and warehouse is not nearly so important as is the question of the prompt delivery of the goods. For these reasons we usually find wholesale business located near the railway sidings, and the land values, compared with values of retail property, much lower. While this class of property affords good security for mortgage loans, care must be taken to guard against overloaning. It should be remembered that this class of property is rather slow of sale, that the area available for such improvement is almost unlimited and that when buildings are vacated by business failure or removal to another location the property is subject to a long period of vacancy before another tenant may be procured.

In most cities we find a district or territory near the retail or congested business center that may be termed the "transitory" section. This territory is large or small, in proportion to the size of the city. The larger the city, the greater is this area. It may have been, and frequently is, the section that in times past was occupied by fine residences and was considered fashionable and quite select section; but with the growth and expansion of the business area and the deterioration of these once fine dwellings they have passed into the rooming and boarding house district. This furnishes a field for the real estate speculator and trader. The alluring hope of the future is always kept in the foreground, and the owners are waiting, always waiting, while the improvements are running down, for the business section to come to them. These sections are the graveyards of many fond hopes and lost fortunes in real estate. He is an exceedingly wise and clever man who can do a successful mortgage loan business in such a section, and in my opinion it is best for the non-resident lender to keep out of it.

Throughout the residential districts of the larger cities will be found sections or cross streets termed "transfer points." They are local business centers; the corners are improved with buildings containing stores on the ground floor and offices or apartments above. These are investment properties and are more or less desirable in proportion to the community they serve. They are usually very desirable security for mortgage loans.

The question of apartment houses and blocks of single or two-family houses for investment, and as security for mortgages, has in recent



years been more and more brought to our attention. This form of housing is unquestionably here to stay and must be given due consideration.

The detached residence in desirable locations, that is comparatively new and modern, and occupied by the owner, affords good security for loans on a conservative value of the property. Such loans should be made with a provision for an annual reduction of the principal, and the security should be frequently examined to see that the property is kept up, the taxes paid, and that the neighborhood does not deteriorate. In every city we have numerous examples of the extravagant residence. It may be selected for the beauty of the location or the aristocracy of the neighborhood, which would make the ground expensive. These grounds are usually landscaped and ornamental, and the house is large, massive and quite frequently designed to meet the fancy of some one who has a desire to build something out of the ordinary and that will excite the envy of his neighbors. Such places, costing from \$50,000 upward, usually become magnificent family monuments that are so weighted with financial and housekeeping burdens that after a little while they are placed on the market at a fraction of their cost. They are very difficult to dispose of and are unsafe as security for loans.

Vacant or unimproved property should not be considered by a careful investor. Manufacturing property, while very essential to the prosperity of a city, is poor security for mortgage loans. The reason for this is that the buildings usually represent the larger part of the investment, are constructed for the special requirements of the business, and, in case of failure, are greatly depreciated, difficult to sell and unsatisfactory to hold.

#### RENEWAL OF MORTGAGE LOANS

One source of trouble with mortgage loans is the granting of renewals or extensions after the maturity without a re-examination of the security, or the making of loans for a short period with the understanding that so long as the interest is paid the principal may stand.

I wish strongly to emphasize the importance of frequent or periodical examinations of the securities.

Applications for renewals should be treated the same as if for new loans and a re-examination of the property and surroundings made, with a complete report to be filed with the loan papers. When the security has become impaired, the neighborhood or locality deteriorated, or the record of the borrower shows delinquency in meeting payments of interest, principal or taxes when due, the loan should be called or the principal materially reduced. It is not uncommon to find loans where the mortgages or deeds of trust have been of record for many

years. The interest and taxes have been paid, but little or no attention has been given by the mortgagees to a re-examination of the security, and many changes may take place in a quarter to a half of a century. The best time to arrange for payments in the reduction of the principal or to cure defects in the title to a property is before any money is advanced on the loan.

In approving an application for a loan it is often well to provide for a periodical reduction of the principal, which is a modified form of amortization. It would be impracticable for life insurance companies, at present, to make any hard and fast rules for the amortization of their mortgage loans. Frequently, for instance, loans on central business property are desired for a term of three to five years, in amounts of from 20 per cent. to 30 per cent. of the value of the security, and it does not meet the business conditions of the borrower to repay any of the principal during that period. With the wide margins of security, the life companies are pleased to have the money invested for a definite period.

A lender must insist on the borrower giving him a frank and honest statement of his financial condition, for in lending money we are entitled to the fullest confidence of the borrower. In a word, if investments are being made in mortgage loans on any class of real estate, it cannot be successfully done in a careless or haphazard way. We should ever bear in mind that it is hardly possible to be over-careful or over-cautious in any of the proceedings of negotiating the application, making the examination and valuation of the property, examination of the title, or the final closing of the loan; and let us ever remember that

"He who dwells in security counts not its cost,  
But he who lives on its borders alone will be lost."

## LONG TERM MORTGAGES

GEORGE WOODRUFF

Long term bonds, purchased by the American people, have made possible the building of railroads, the development of public utilities, the creation of manufacturing plants and the improvement of almost every form of industry—excepting the farm, upon which every man, woman and child in the country depends for daily bread. In America, the farm, representing a fixed investment and producing only a limited annual income, has been financed by short time mortgage notes practically all of which came due in so short a period of time as to make it entirely impossible for the farmer to pay off the debt at maturity out of the income from the land.

Some years ago a campaign of education was carried on looking

toward the establishment of farm mortgage banks to loan money on farms on the long time amortization principle. As a result of this campaign, the Federal Farm Loan System came into existence, and has already made it possible for many farmers to finance their land on the long term basis, which is required by the nature of the farmer's business.

It is gratifying to note that another step forward has now been taken and a new campaign of education has been carried on by the American Bankers association, looking toward the adoption of the principle of long term farm financing by all institutions interested in farm loans, and suggesting the adoption of amortization principles in the making of many city real estate loans as well.

An amortization loan is usually made in America for from ten to thirty years, and the borrower is required to make semi-annual payments all of which are equal in amount and each of which represents the interest due and also a payment on the principal.

As the loan is reduced the interest constantly becomes less and as the semi-annual payments are always the same, the amount left over after payment of interest constantly becomes greater, and these constantly increasing amounts are used to apply on the principal and entirely discharge the debt at the end of the term for which the loan was made to run. As the loan never has to be renewed but continues to run until the semi-annual payments have cleared the property of debt, the borrower is never compelled to pay any renewal commissions, never has to go to the expense of bringing down his abstract or having it examined every few years as at present, and is relieved of anxiety lest he fail to meet the mortgage when due and consequently lose the property.

This campaign on the part of the American Bankers Association in favor of amortization principles in loaning money is a most commendable activity, and will doubtless result in a quite general adoption of the amortization principle by institutions loaning on real estate for their own investment, but unfortunately institutions, mortgage dealers, and loan brokers expecting to resell mortgage loans will find it inconvenient to adopt the amortization form, because the average investor will not bother with the small and constantly changing semi-annual payments on the principal. Consequently the American Bankers Association might perhaps consider some slightly different form of long term mortgage that could be adopted by those dealers interested in the resale of the mortgages which they negotiate. Such a form of mortgage, making it possible for the borrower to get long term credit, even when dealing with the average mortgage broker, might be found in the long term serial loan which would be in many respects similar to the long term amortization loan used by institutions when investing for their own account.

### AMORTIZATION COMPARED TO SERIAL FORM

Under a serial loan a borrower agrees to pay off a small fixed amount of principal semi-annually and as the semi-annual interest constantly becomes less, the payments which he makes representing interest and partial payments, constantly become smaller instead of always remaining the same, as under an amortization loan.

In case of an amortization loan the borrower signs but one note and the amortization payments, constantly changing in amount, are endorsed on the back of this note. Under the serial plan the same arrangement can be adopted and the serial payments, which will always be the same, can be endorsed on the back of the note. However, in the case of good sized loans it would probably often be desirable to have the borrower sign a separate note for each semi-annual payment, as each payment would be for the same amount, and these notes of various maturities could be sold to various investors, for the average investor is glad to buy a note which represents part of a loan and which matures at a stated time, while he will not buy an amortization note which is paid off in unequal payments, a little at a time.

Under this plan the mortgage dealer is able to supply small denominations which are always in demand and he also has notes of both short and long maturities and can furnish an investor whatever maturity is desired. The profits of the mortgage dealer would be represented by a cash commission, or by "split interest" coupons, or by second mortgage commission notes, all three of which systems are now in use generally in the United States.

The principle of making long term real estate mortgages subject to small regular payments has been a success in other countries for over one hundred and fifty years, and to those who are interested in the improvement of American mortgage conditions it has seemed that there exist no good reasons why the farmer and real estate owner in the United States should not enjoy just as great financial advantages as a peasant in France or Italy or any other of the great nations.

### FROM THE STANDPOINT OF THE SAVINGS BANK

H. E. BOYNTON

The savings bank is not primarily an institution for the investment of the money of its depositors, but a place for the care of their funds in such manner that they may call for and receive payment of them upon reasonable notice without diminution.

It follows that safety is a cardinal principle governing the investment of such funds and the real estate mortgage long has held the

lead as a savings Bank investment, all things, and especially the yield, being considered.

But too often has the real estate mortgage, thought to be gilt edged when originally placed, through shrinkage in value of the collateral, disappointed the holder, and without just criticism attributable to the judgment of the original investor.

Real estate is susceptible of great fluctuation in value, in even the most staid communities, and the holder of a long term mortgage well may see his security impaired before his eyes, while helpless to remedy the situation.

On the other hand, investors are prone to place a good loan where it will remain for an appreciable term without the need of renewing or of constant watchfulness.

The amortized mortgage loan, in the form of a demand note, with a collateral agreement for forbearance upon the part of the mortgagee so long as periodical part payments are made upon the principal, and the other conditions of the mortgage are complied with, by the mortgagor, has proved a solution of the difficulty by rendering the loan self-conservative.

It operates to relieve the bank of the need of constant inspection, gives it the security it seeks, the yield it must have to perform its functions, and, when well under way, a constant inflow of ready money to meet its requirements from day to day, in answering the calls of its depositors, and, if need be, to store against pressing or anticipated demands from any and all sources, as well as to reinvest.

The last is no mean factor in the psychology of savings banking, for it is most unfortunate for an institution of the character of a savings bank to find its funds tied up in a few large mortgages, while borrowers are clamoring for new loans for legitimate purposes.

The elasticity of the amortized mortgage, so long undreamed of under the old system, is well illustrated by the figures taken from the books of a single savings bank which has practiced the new method for many years.

Balance mortgage loans Jan. 1, 1914.....	\$1,003,198	\$1,003,198
New loans made:		
Number .....	1021	
Amount .....	2,471,699	
		<u>\$3,474,897</u>
Payments received.....	1,716,474	
		<u>\$1,758,423</u>
Balance mortgage loans Sept. 1, 1919.....		\$1,758,423
Net increase in 5 years, 8 months.....		755,256
out of new investments of \$2,471,699 distributed among 1021 loans.		

## AMORTIZATION BENEFITS BORROWERS

Many a borrower has bequeathed to his widow and children an insupportable burden in the form of a mortgage which misfortune or ill-fortune has rendered it impossible for him to pay in his lifetime.

More than misfortune or ill-fortune, however, has inertia contributed to the same result.

The borrower with a long term mortgage to cope with, when confronted with bulk payment compared with his possible savings after the payment of necessary daily expenses from his savings, is so impressed with the disparity as to lose hope of ever meeting more than the interest charges, and thus is not encouraged to save at all and tends towards the other extreme from the apparent hopelessness of ever overthrowing the burden.

While on the other hand, with periodic payments, partly out of the earnings of the property itself if not wholly employed by the owner, or from his earnings or business, in lieu of or in the manner of rent, on account of the principal, a borrower soon has his loan so much under his command to be spurred to save and complete the transaction begun by the mortgage.

In this manner a home is acquired or a business venture put through, with the weight of the burden of the mortgage so distributed as hardly to be felt, while the lesson of saving and the possibility of accomplishing great things a little at a time so deeply impressed as to create in the borrower a mental attitude most favorable to his general success.

A savings bank depositor, above all things, likes to feel that his money is actually on call whenever he needs or wishes to use it.

What funds he invests, he realizes, may have to shrink, or, at least, be not easily available as cash at a moment's notice.

The money in the savings bank he regards as cash on hand, and whatever tends to keep a ready supply of funds in his bank, without detracting from its safety and reasonable earnings, he regards as, and undoubtedly it is, exceedingly advantageous to him.

A savings bank is an extremely important and useful factor, not only for safeguarding the savings of the citizens, but in assisting in maintaining and developing the home and business life of the community it serves.

It goes without saying that the more people it can help to acquire homes or to establish business the more valuable it becomes.

Under the old system of term mortgages the funds of savings banks become tied up to the limit of safety in that class of investment and thereafter their usefulness in that regard is limited to the funds becoming available through maturities, and it is well recognized that the old tendency was to reinvest maturing funds in as few and as long term investments as prudence dictated.

Consequently the many small borrowers would be overlooked to the advantages of the few large borrowers and the original conception of the mortgage, the "dead hand" become realized.

With the partial payment plan of amortization the savings bank, on the other hand, has a constant flow of money coming in for reinvestment and a dollar has its power of serving the community purposes multiplied many times, is enabled to help acquire more homes, start more businesses and, by reappearing so many more times for service, help to create the atmosphere of prosperity so highly desirable in all communities and, at the same time, ease the bank's position and earn just as much as ever before.

#### AMORTIZATION PROMOTES HOME BUYING

Experience has demonstrated that it is a great inducement to home buyers. In the community served by the savings bank heretofore referred to it is estimated that fully 75 per cent. of its families are home owners, while in New England at large, in which this city is situated, only 39 per cent. are said to own their homes.

Certainly nothing, especially in these times of uncertainty and unrest, is more stabilizing to a community than to have a large percentage of home owners among its citizens.

Nor is it of small moment that "mortgage" shall have emerged from the obscurity of fear and dread, so long surrounding it, and stand before the community as a ready and helpful friend.

Is it to be wondered at then, in the face of the many palpable advantages of the amortized mortgage, that the sentiment in its favor, long sensed by bankers should have crystalized to the extent of recognition by the American Bankers Association of a need for study of the subject, and that the committee having the matter in hand should report that out of 660 savings banks, trust companies and insurance companies inquired of, only about 18 per cent. failed to favor this form of self liquidating mortgage?

**MR. FRAZIER:** This will close our very interesting discussion on the question of amortization, and we will now adjourn for luncheon.

Adjourned.

#### LUNCHEON MEETING

HOTEL JEFFERSON

Monday, September 29, 1919

After the meal, President Lersner presented the Section's guests, President Maddox, and Mr. William E. Livingstone,

president of the Dime Savings Bank of Detroit, Michigan, and former President of the American Bankers Association, who responded.

## CONFERENCE OF SAVINGS BANKERS

### SECOND SESSION

September 29, 1919.

Mr. Raymond R. Frazier, chairman of the Conference, called the Conference to order and, in the absence of Mr. Frederic B. Washburn, president of the Franklin Savings Bank of Boston, requested former Secretary Harrison to present the report of the Committee on Investments as follows:

### REPORT OF COMMITTEE ON INVESTMENTS

Gentlemen of the Convention: The Committee on Investments was an outgrowth of a committee appointed by the executive committee at the Chicago convention to co-operate with a similar committee of the Investment Bankers Association. Overtures were made to the Investment Bankers Association by a representative of your committee while at the annual convention of that association at Atlantic City, December, 1918.

After consideration on the part of the governing body of the Investment Bankers Association they determined to offer every courtesy of the Investment Bankers Association for the advice and co-operation of any committee of the Savings Bank Section, but neglected to appoint the committee we recommended. However, your committee continued a study of problems affecting savings bank securities regardless of the action of the Investment Bankers Association, and at the spring meeting of the Executive Committee of the Savings Bank Section the original committee was changed to the Committee on Investments without change of personnel, which now is privileged to make this report.

Your Committee had before it three subjects for study:

1. The desirability of urging upon municipalities the serial issuance of their bonds.
2. The railroad situation. The support of a plan for the return of railroads to private ownership.
3. Recommendation of action in the investment of savings banks in high grade foreign securities.

The executive committee in determining upon these activities expressed itself in the following resolutions:



## A

*"Resolved, That the executive committee of the Savings Bank Section acting in the interest of the 4,500 banks members of the section who are owners of municipal securities, favor the issuance of municipal bonds on the plan of serial payments in accordance with the character of the development and the ability of the community to properly pay the debt.*

*"Further Resolved, That there is no intention of the Executive Committee of the Savings Bank Section to urge state legislation restricting investment of savings funds to municipal bonds that are issued upon a serial basis."*

## B

*"Resolved, That the Executive Committee of the Savings Bank Section through the Committee on Investments is committed to the study of the railroad situation and holds itself in readiness at all times to support a plan for the return of the railroads to private ownership.*

*"Further Resolved, That we are in favor of such legislation by Congress as will insure under all conditions a fixed percentage return on the investment in railroads through the adjustment of rates as provided in the so-called Warfield Plan for the return and regulation of the railroads, which has the full support of that most distinguished statesman, the Honorable Elihu Root as fundamentally the most sound plan proposed and which has been laid before Congress by the National Association of Owners of Railroad Securities representing an actual membership of one-half of the seventeen billion dollars outstanding securities of the railroads."*

## C

*"Resolved, That the Executive Committee of the Savings Bank Section favors investment by savings banks in high-grade foreign securities in order to further the stability of international finance and directs the Committee on Investments to study the character of foreign securities which should be eligible for investment by savings banks.*

*"Further Resolved, That restrictions be developed safeguarding the funds to be invested in foreign obligations, the same to be placed in the form of a bill eventually to be submitted to state legislatures for their action.*

*"Further Resolved, That, for like reason, to furthermore urge upon the people of this country the vital necessity of their individually purchasing substantial amounts of such foreign securities as may be determined to be safe investments for savings institutions."*

## SERIAL ISSUE OF MUNICIPAL OBLIGATIONS

With relation to the first subject, the serial issuance of municipal obligations, the chairman of your committee requested of leading investment dealers opinions in relation thereto. We found that opinion was fairly general as to the desirability of the serial issuance of municipal bonds. Some leading municipal bond authorities, however, took an opposite viewpoint, and expressed it thusly:

From Harris, Forbes & Company, New York:

"We must recognize that a properly provided for and administered sinking fund has all the elements of safety in good financing that the serial payment plan has, and it has one cardinal virtue from the standpoint of the investor in big amounts of bonds in that they can get round amounts of one maturity and do not have to go through the burdensome and unsatisfactory bookkeeping which is required for the amortization of a serial issue. We hardly think that any agitation which would force municipalities throughout the United States to issue only serial bonds would redound to the benefit of the banks, whose interests you are trying to serve, for if the policy suggested were adhered to, it would debar them from investment in bonds of a great many of the more important and best financed communities in the country. A real service, we think, could be done to the savings banks if as a matter of policy they would refrain from buying bonds where there is any constitutional or statutory limitation on the power to create sufficient revenue to meet interest and maturing principal, and also to advocate the refusal to consider offerings of securities which do not truthfully and frankly set forth all of the essential facts in connection therewith. We make this suggestion because there has been a tendency to dress up, in language probably safe from a purely legal standpoint, offerings of securities which induce the purchase of the bonds without an understanding of all of the important facts in regard to the security."

A large amount of municipal securities held by savings banks are sinking fund issues. There is no presumption that the savings banks would cease to invest in sinking fund municipal obligations which have already been issued. The thought of your committee was more to urge that all new issues of municipalities be placed upon the serial payment basis. The investment dealers' attitude, as already expressed, may be justified largely because of the amount of sinking fund municipal obligations which are always on the market and available for investment, and that some of the high-grade municipalities are bound to disregard the request of investors, and thus there will be a number of new issues upon the sinking fund basis in the future.

Biddle & Henry of Philadelphia cast some light upon the opposite viewpoint:

"Although it is unquestionably cheaper for the municipality to issue a serial rather than a sinking fund thirty- or fifty-year bond, there are certain disadvantages in the serial bonds, which although of small moment to the municipality issuing the same, have perhaps considerable bearing upon the institution making the investment. During the past twelve years the writer has had an opportunity of dealing in a good many million dollars of City of Philadelphia 3's,  $3\frac{1}{2}$ 's, 4's and  $4\frac{1}{2}$ 's. Prior to 1900 the City of Philadelphia had been in the habit of issuing serial bonds; since then most of these bonds have been paid off, but there still is and has been during the last twelve years a fair amount outstanding. The market in these has always been much wider than in the thirty-year sinking fund bonds, which the city started to issue and has been issuing since 1900. For instance, there are outstanding at the present time City of Philadelphia 3's, due July 1, 1930,  $3\frac{1}{2}$ 's, due July 30, 1934; a small issue of  $3\frac{1}{2}$ 's, due January 5, 1937; and the 4 per cent., which mature from 1937 to 1967. There are also three issues of  $4\frac{1}{2}$  per cent. bonds which have been issued during 1918 and 1919.

"It is a curious fact that the serial issuance of  $3\frac{1}{2}$  per cent. bonds does not and has not the same advantage of market that the other issues have. This is very largely due to the fact that there are so many maturities that the only basis for calculation of price is the basis book. The ordinary individual is thoroughly unfamiliar with this and largely bases his point of view of the value of a bond at the price at which it is selling. Curiously enough, City of Philadelphia 4's, which are selling at the present time at about 97, net for the longer maturity only about 4.15 per cent.; while the  $4\frac{1}{2}$ 's, which are selling at about 101 $\frac{3}{4}$ , net nearly 4.40 per cent. Of course, the objection to the  $4\frac{1}{2}$ 's in the individual mind is the premium, but the rate of interest is more attractive than in the case of the 4's and he is willing to pay a slight premium for the same. A great many trustees are willing to buy municipal bonds selling at a premium, and under the laws of Pennsylvania the premium may not be amortized and gradually charged off to income.

"We ourselves have found that the old serial bonds have always been much harder to sell than the thirty-year issues. In other words, in 1910 it was easier to sell  $3\frac{1}{2}$ 's due 1931, 1932, and 1934, than it was to sell serial  $3\frac{1}{2}$ 's maturing from 1915 to 1928. People grew accustomed to the prices of long time  $3\frac{1}{2}$ 's of 1931 to 1934 but could not understand why they had to pay such high prices for the shorter  $3\frac{1}{2}$ 's maturing in a few years. Of course, this gives a great advantage to the marketability of the longer time thirty-year bonds. To show how little difference basis makes in the determination of the individual, City of Philadelphia 4's maturing in 1937 sell at the same price as City of Philadelphia 4's maturing in 1947, and City of Philadelphia

4's maturing in 1967 do not sell materially cheaper than the 4's selling in 1937. The difference between the 4's of 1937 and 1967 in price is about 1 to 1½ per cent."

The middle Western opinion from Seasongood & Mayer of Cincinnati, Ohio, is also enlightening in the consideration of the desirability of restricting the investment of savings banks to a serial basis for the issue of municipal securities.

They state that "the policy of serial issuance in the abstract is sound, and while we do not wish exactly to say that we should oppose any legislation to bring about issuance of only serial bonds, we believe there is another side to the subject. If all municipalities were compelled to issue serial bonds, it would impose a great hardship on many growing, progressive communities, as issuance of serial bonds involves a rather substantial increase in the tax rate to take care of the serial maturities, and where there is a limitation to tax rate, it would seriously obstruct and impede the municipality in its administrative affairs, and also in the municipal extensions and improvements, and if you were to adopt your plan of restriction to serial issuance and ultimately force municipalities to issuance of only serial maturities, we believe it would create widespread harm and impede progress, and with conditions as they are in this country today, we think municipalities should be encouraged to progress and make necessary improvements that will offer every facility for enlargement and future growth.

"We are simply believers in a constitutional requirement in each state of the Union, that simultaneously with issuance of municipal bonds there should be levied a tax sufficient in amount to pay principal and interest at maturity; that we do not favor the continuance of debts of long standing by resorting to refunding issues. We are also of the firm opinion that issuance of municipal bonds should be theoretically sound in respect to the life of the bonds to cover the life of the improvement which the bonds shall issue."

C. T. Cushman, Manager of the Investment Department of the New York Life Insurance Company, finds that "generally speaking, the serial form is today recognized as preferable in issuing municipal bonds and in a number of other states no other form of bond is permitted."

And the opinion of Charles B. Wood of Chicago, a prominent bond attorney:

"Sinking funds are a myth. Experience has proven this to be the case and the only remedy is to have the bonds payable serially, then there is no need of a sinking fund. It seems to me that the time should soon come when discriminating investors would not purchase any bonds unless they were payable in serial instalments beginning one year from date. It is by far the best and soundest financial policy for the issuing body to adopt, and the practice of issuing bonds in this way is on the increase all the time. I should say that fully three-

fourths of the bonds issued in the state of Illinois are payable serially, and I take the broad ground that every bond should be so paid. In many places the laws will not permit this, but in such places the laws should be amended."

Mr. H. Sylvester, Jr., of the National City Company, thinks that:

"In the last analysis the financial condition of a state or municipality is the only guide to its strength or weakness. Some states and cities are better able to pay the principal and interest on thirty- or forty-year long time bonds than are others to pay one- to thirty-year or one- to forty-year serial bonds."

#### SERIAL PLAN PREFERABLE TO SINKING FUND PLAN

From the point of view of the investor in some respects a sinking fund bond is more convenient than one upon the serial basis. But your committee believes that the soundness of a serial issuance policy more than offsets inconvenience to the municipality or lack of sales effectiveness to the investor who may not understand serial issues. It may be observed from an examination of recent issues of municipal securities that an offering of a sinking fund bond is an exception to the general rule. The state, county, or city, obligation will continue to be most attractive for some time. Thus, the primary interest which the savings bank investor has in investment in such obligation, is to increase its soundness in every possible degree. The requirements of a public nature are bound to be very great for some time to come. This clearly is manifested by the recently announced billion dollar program of the cities of the United States with the program of road building, added educational facilities, greater sanitation, etc. Large amounts must be made available.

Whether the taxing power of the states or municipalities can withstand the strain of the proper repayment of these issues may be questioned. Nevertheless, if these improvements are to be made, and thus the huge funds expended, consideration of adequate repayment is imperative. There is no doubt but that the proposed improvements which call for the issuance of public bonds are highly desirable, but, on the other hand, it is advisable that institutions with money to invest adopt the most conservative policy in respect to the securities in which it is their intention to invest future funds, even though their present holdings may be prior liens, and that any further issues would not jeopardize the underlying securities.

#### TAXING POWER IS NOT UNLIMITED

It seems to be the presumption of a number of public officials that the taxing power of the community is unlimited, and therefore there is no hesitance in finding ways and means for increasing the debt of the community. This obviously is a wrong attitude, particularly when

national, state and local needs have increased tremendously within the past few years and will require a continued strain on the wealth and income of every community. For example, with Federal aid for road building, states, counties and municipalities are rushing headlong into securing a portion of such funds, apparently without considering whether the community at the time can withstand increased debt. Hence, if it is impossible to finance the enterprise of a community on an amortized long term basis, possibly from fifteen to forty years, depending upon the life of the improvement, your committee believes that the community should not add to its financial obligations. While it may be recognized that in some communities such finance is impracticable, nevertheless, as a general policy it is our belief that the serial issuance of municipal bonds is sound of doctrine and is essential. Of course, there are circumstances and conditions surrounding each borrowing community whereby no general principle can be applied. Such elements must always be considered by the financier.

We do not desire to pass any summary judgment upon the method of lending the funds, but we believe that generally serial issuance, rather than sinking fund issuance, is more desirable to apply to public bonds.

#### FOR THE STABILITY OF RAILROAD BONDS

There has been no economic question more discussed than the railroad situation. Naturally, savings bank investors are desirous of maintaining the stability of the securities they now hold. There are very few railroad stocks held by savings banks, the bulk of their railroad investments is composed of the highest grade first mortgage bonds, which would be protected under any plan excepting, perhaps, such a plan as that proposed by Glenn Plumb, general counsel for the railway brotherhoods, which would nationalize and sovietize the railroads. Under the conditions of the Plumb plan no one can foretell its effect on invested capital. The resolution adopted by the executive committee of the Savings Bank Section at its spring meeting approved fundamentally the plan proposed by the National Association of Owners of Railroad Securities. This plan would permit the present restrictions on the investment in railway securities by savings banks to continue without change.

The Savings Banks Association of the State of New York industriously has pursued a course of protecting the interests of mutual savings banks which hold the larger share of railroad securities. Their representatives have attended hearings at Washington and the Association has given publicity to the plan which your committee has been engaged in supporting. Their influence has been effective. As President Beach of the New York Association stated at a hearing August 16, 1919, before the Committee on Interstate and Foreign Commerce of the House of Representatives, Washington.

"The only idea in the minds of many people regarding railroad securities is that they are mainly owned and held by the very wealthy. They do not stop to consider the fact that the major portion of the liquid wealth of the nation consists of the small accumulations of the many rather than of the larger holdings of the few.

"The Savings Banks Association of the State of New York, of which I have the honor to be the president, comprises in its membership 139 of the 141 mutual savings banks in the state. These mutual savings banks have no stockholders and no stock. The trustees receive no pay for their services and every dollar the savings banks earn, beyond the actual cost of doing business, belongs to the depositors. It is needless to say these banks are popular with the people, for over one-third of the entire population of New York State, counting every man, woman and child, are depositors in mutual savings banks. To be exact, there are over 3,500,000 depositors who have to their aggregate credit the enormous sum of over \$2,000,000,000.

"There are similar mutual savings banks in fourteen other states, the total number being 615, which own approximately \$850,000,000 of railroad securities. These securities belong to over 9,000,000 people, who are depositors in the widely scattered mutual savings banks of the nation.

"Savings banks are required by law to invest money of their depositors as speedily as possible in certain safe and specifically designated high-class securities and among them of necessity are those issued by the railroads.

"Besides the savings bank depositors there are 33,000,000 citizens holding life insurance policies; and railroad securities form a large block in the investments of the companies by which these policies are issued. In addition to these are millions of small depositors in trust companies, national banks and state banks; also hundreds of universities, thousands of trust estates and individual investors, so that in all 50,000,000 people, a full half of all the people in the nation, comprising mainly the middle class—made up of business men, mechanics, clerks, laborers, the widow and the orphan—are vitally interested in having the railroads returned to private ownership under such terms and conditions as will render present outstanding bonds desirable to retain and future issues attractive as an investment.

"I am before you today to advocate the plan which, after exhaustive research and careful thought and deliberation, has been formulated by the National Association of Owners of Railroad Securities. This plan was incorporated in a bill and introduced near the close of the last session of Congress, and is to be reintroduced at the present session.

"To describe this plan in the briefest possible manner—for without doubt its text is familiar to you all—it provides that Congress shall, by specific act, provide that such rates for freight and passengers shall

be established as will produce a return of not less than 6 per cent. upon the combined property investment accounts of the roads in each of the three classification territories.

"While this average return of 6 per cent. would not enable the roads traversing a sparsely settled district to earn quite the average it would enable the roads operating through a thickly settled, rich territory to earn much more than 6 per cent. and would therefore at first thought appear to be inequitable; but to cover this point the proposed plan contains the entirely original and easily workable suggestion that all money which a railroad earns, in excess of 6 per cent., shall be divided into three equal parts. One-third is to be retained by the road that earns it. One-third is to go to labor—the employees of the railroad—and the remaining third is to be devoted to such use as will be of benefit to the traveling public and the shippers.

"The vital point of this proposed measure is that if those roads having the average efficiency can be assured of a return of 6 per cent. by Act of Congress, it will settle and take out of the hands of the Interstate Commerce Commission the much vexed question of 'What is a *reasonable return*?'

"Ex-Senator Elihu Root, whose keen analytical mind clarifies and illumines every problem to the study of which it is turned, said, in a letter addressed to Mr. Warfield, touching the plan, 'I think you have put your hook into the key log of the jam.'

"No more terse or more effective description of the conditions which prevail could be expressed than is contained in these words of Mr. Root. We all know there is a jam. Every business man in the nation knows that government ownership or government operation of railroads can never be made either economical or efficient and, in a republic to the continued existence of which political parties are necessary, the making a political asset of the vast number of railroad employees which our great transportation system requires would be a constant and grave menace to good government.

"It is our firm conviction that the railroads can not avoid destruction and eventual government absorption unless they are assured of a return of not less than 6 per cent., 'through exercise by Congress of its duty to stop, by Act, the knife of regulation short of the heart of the transportation system of the United States.'

"It is a natural question to ask, not being a practical railroad man, 'Why am I here?'

"That question is easily answered. I am here because I directly represent trust funds to the amount of two billions of dollars. And when I say 'trust funds' I mean just that in every sense of the words. So carefully has the Legislature of the State of New York safeguarded and hedged about the investment of the money deposited in savings banks by carefully worded restrictive laws, that these laws have be-



come the mark and model which other states are fast adopting as their own. By these laws a railroad, in order to have its bonds become legal for savings banks to hold, must be efficiently operated. It must have a specific earning capacity, demonstrated by the amount of dividends regularly declared over a fixed period of years. In other words, a savings bank can not buy a railroad bond unless that bond is rendered as safe and secure and as certain of being paid in full at maturity, as human experience can determine.

"But nothing in human experience affords a precedent for such operation of railroads, in this or any other country, as the past two years have witnessed. Operating costs have mounted so far out of proportion to receipts that the bonds of at least eight or nine railroads, which were eligible before the war started, are in a fair way to become illegal for savings banks to hold.

"It is easy to ask 'Why can not these laws be made more liberal to conform to new conditions?' But the fact is we do not want these laws changed. We have no need to attempt to camouflage our position. What we do want is to have such legislation enacted as will bring the railroad securities *up to the requirements of the law*; so that instead of being forced to sell the bonds we now hold and thereby still further deflecting an already depressed market we may feel warranted and justified in adding to our holdings by investing in new issues of railroad bonds as much of the two billions of deposits entrusted to our care as we are permitted to do by the laws which govern our investments."

Our part is simply to wait for further developments and trust the railroad question will be solved to the best interests of the public, the investors, the carriers, and the shippers. High-grade railroad issues naturally are at their low ebb of market value and it may be assumed that when the railroad muddle is straightened out these values will return to what they approximately were before the war.

#### AS TO HIGH-GRADE FOREIGN SECURITIES

In the recommendation of action in investment by savings banks in high-grade foreign securities your committee has awaited further developments in and demands for the study of such recommendations. During the past year Connecticut has amended its investment law permitting savings banks to invest in certain high-grade foreign securities, such as interest obligations of the Republic of France, and bonds of the Dominion of Canada, including the provinces thereof, as well as bonds of the Kingdom of Great Britain and Ireland. Ohio amended its laws as to such investments very loosely and without adequate restrictions.

It may be well for the committee during the ensuing year to develop the proper restrictions on investment by savings banks in foreign obli-

gations. It seems highly important that the savings banks of the country absorb as large a quantity of sound foreign obligations as conservatism will permit, and it is advisable for the Savings Bank Section to take the initiative in the matter.

Respectfully submitted,

FREDERIC B. WASHBURN, *Chairman*,

President, Franklin Savings Bank, Boston, Mass.

MYRON T. HERRICK,

President, Society for Savings in the City of Cleveland, Cleveland, O.  
JOHN J. PULLEYN,

President, Emigrant Industrial Savings Bank, New York City.

MILTON HARRISON, *Secretary*.

Following a round table discussion on thrift campaigns, segregation of savings reserves, investment in foreign securities, Federal reserve membership, and other subjects, the conference adjourned.

## SAVINGS BANK SECTION

### EIGHTEENTH ANNUAL MEETING

Tuesday, September 30, 1919

The meeting was called to order by the President, Mr. Victor A. Lersner, presiding, at 2 p. m.

PRESIDENT LERSNER: The first order of business will be the report of the Secretary and the committees. These reports have been printed and distributed.

On motion duly made and seconded it was decided to dispense with the reading of the reports. (The reports are printed at the end of the Section's proceedings).

PRESIDENT LERSNER: It now becomes necessary for the Chairman to appoint a Nominating Committee and a Committee on Resolutions which compose the Convention Committees.

With your consent I will ask Mr. Joseph R. Noel to act as Chairman of the Nominating Committee with associates James Dinkins and Ernest K. Satterlee. For the Committee on Resolutions, Messrs. Raymond R. Frazier, Chairman, A. Koppel and P. J. Slach.

We now go immediately into the question of those subjects that concern themselves with the practical part of this meeting.

It did seem as though, in view of the wonderful work that has been done by our Committee on Investments under the chairmanship of Mr. Washburn, that it was no more than fitting that some discussion be had on that very serious and important question. That involves the subject of municipal securities and in searching over the country for somebody who could speak to us with authority on it we were lucky enough to have Mr. Howard F. Beebe of Harris, Forbes and Company, agree to come out here and talk on this question. (Applause).

## MUNICIPAL CREDIT AND ITS NEW ASPECTS

HOWARD F. BEEBE

As nearly everyone consciously or unconsciously measures new developments by establishing conditions or standards, I can think of no better way to approach consideration of the subject in hand than to draw into comparison present conditions and tendencies with those of previous periods. Because of the many ramifications, particularly because of the great variation in the laws of the various states governing the creation of the public debt, there has been much divergence of opinion as to whether or not any standard can be set up which could even approximately gauge the safety of municipal bonds, under which heading we will place obligations of states, counties and other political subdivisions which are, from a technical standpoint, not municipalities. We see evidence of attempts to do so in the various savings bank acts of the New England states and of New York and New Jersey where a system of purely mutual savings banks has been in existence. A careful study of these acts will show, as most of us have appreciated, that they have been drawn with an idea of giving sufficient scope to the fiduciary institutions operating thereunder to invest their money and that the lines have been drawn in practically every case well inside of what everyone would at once recognize as the safety point.

Some two decades or more ago the theory was prevalent that a debt of a municipality which exceeded from five to seven per cent. of the assessed valuations for taxation in the community (or a county which exceeded three or four per cent. of the taxable values) had passed beyond the conservative line. Very little consideration was given as to how the money had been spent, as to whether it was anticipating future needs and really in the nature of economy, everything considered, whether the municipality had realizable assets of a sufficient amount to offset its relatively large outstanding indebted-

ness, and other factors which had a pertinent bearing on its actual financial position.

#### RECOGNITION OF SELF-SUSTAINING IMPROVEMENTS

As might be supposed, the first adjustment to correct this practice came through a recognition of the problems which a municipality faced in providing pure and ample water for the inhabitants, and there was written into the various savings bank acts an exclusion of this type of debt in prescribing limits of indebtedness beyond which a municipality should not go if its obligations were to remain eligible for the investment of the various funds under control. No consideration was given in the various acts of whether or not the assessable ratio to actual value was 20 per cent., as it was under constitutional and statutory provisions in some of the states, or whether it reached from 60 to 70 per cent. as was the estimated ratio in the older established Eastern municipalities; nor did the proportion of property represented by real estate—a fixed value, as compared with illusive intangible personal property—receive attention. As a matter of fact, the limits had been placed at such obviously conservative points that it did not make very much difference, as affecting the surety of collecting the debt when it was due, what the money had been spent for or what the general policies of the officials were.

In allowing for the subtraction of water works indebtedness in arriving at "Net Debt," the framers of the various acts recognized, in principle, the non-inclusion of such debt as is self-sustaining, i. e. through its operation produces a revenue sufficient to pay operating expenses and the cost of the money used in the purchase or construction of the works. If this principle is sound, and there is no reason to question that it is, within reasonable limits, it is important to consider it in relation to developments of recent years, for where practically the only type of public utility owned and operated by a municipality twenty-five years ago was its water works system, many municipalities have since that time constructed and operated electric light plants which are a logical development of the water works business, particularly in the smaller towns; public docks and in a small number of cases gas plants, markets, etc., which are operated on at least a self-sustaining basis. Is it, therefore, not proper to consider indebtedness contracted and outstanding in connection with the construction or purchase of such properties, as properly deductible along with water works debt, in order to get a more accurate understanding of the debt for which the taxable property of a community must pay?

#### STREET RAILWAY PROBLEM FROM THE MUNICIPAL STANDPOINT

The war has made the labor situation so acute and has so sharply advanced, temporarily if not permanently, the cost of labor as to

have made the problem of street railway transportation one of the most important which the various communities have to face, and solve in the immediate future; and if, as some predict, and advocate, transportation should be afforded to the citizens of a community at a 5 cent rate, and any excess in the cost of furnishing such service at that price should be made up by the community as a whole through taxation, we have arrived at one of the most important developments in municipal financing which has occurred in the history of this country. If, on the other hand, it should develop that the street railways are to be municipally owned and operated and a charge for service made according to the cost of furnishing it, then the problem is considerably modified, but is still a most important consideration. By far the large majority of those people who are in a position to speak understandingly, and who have given voice to their opinion, have stated that the municipal operation of public utilities is not feasible. We are all well acquainted with the reasons which have been advanced, and there is no doubt that in a very large majority of cases operation under the control of municipal officials has been extravagant and generally short-sighted, and this has been particularly true of that type of utility which required the employment of a large number of persons, for not only have more persons been employed than a private corporation finds necessary under similar conditions, but the personnel, from the standpoint of efficiency, has been low. Whether a municipally owned and privately operated public utility would work out to the advantage of the citizens is a question on which there is much more divergence of opinion; but the inharmony which has grown out of the relations between private operators under public ownership up to the present time, indicates that the contracts entered into have been lacking in flexibility to meet changing conditions, and something radically different will have to be devised.

The change in the constitution of the state of New York which permitted the city of New York to issue indebtedness for self-sustaining improvements, and which was to provide for the securing of sufficient funds to construct the Interborough subway system, is an indication of what we may expect from various other states if the tendency is represented by self-sustaining properties, is in a very sound position; It is apparent that a municipality with a gross indebtedness in proportion to taxable values of 10 per cent., one-half of which debt is represented by self-sustaining properties, is in a very sound position; for even though a substantial portion or all of such properties, through changing conditions, should no longer bring in sufficient revenue to be termed self-sustaining, an amount sufficient to cover the additional indebtedness could be raised through taxation without any great burden on the tax-payers. If, however, a municipality is to contract an indebtedness of 25 per cent. or even 50 per cent., which might easily

come to pass under conditions which we could all imagine, and all of that indebtedness except 5 per cent. was for self-sustaining properties, what assurances have we that changing conditions, mismanagement, poor business judgment, etc., might not throw an enormous burden back upon the property holder in the form of taxes?

It is in anticipation of such conditions that a representative body, such as this, should continue to give careful thought to the subject and voice their well considered opinion to legislators and public officials generally with whom they come in contact. The fact that there are existing constitutional or legislative provisions which would seem to keep the public debt within very modest bounds is no assurance that under stress of public clamor changes may not be made despite the protest of the more conservative citizens, which would open the door to actions that would be regretted afterwards.

#### QUASI MUNICIPAL DEBT AND ITS EFFECT ON CREDIT

Another tendency which needs to have careful consideration is that shown in a number of communities, to take on what may be termed for want of a better name "contingent" liabilities. Certain cities in the northwest, not having leeway under constitutional and statutory limitations on their power to create indebtedness, have in recent years contracted indebtedness, payable solely out of earnings of the properties with which to extend those properties. Such indebtedness has been placed throughout the country and in many cases has been purchased by investors who do not clearly understand the fundamental difference between that type of security and a municipal bond payable from taxes upon all the taxable property within the community. The result has been to somewhat lower the credit of the various cities because of the more liberal terms upon which the "special" debt has been marketed. A leading city of the South has outstanding certain bonds of the Belt Line Railway which are under certain remote conditions to be paid out of taxes, while a southern state has issued large amounts of bonds for which they have limited their liability to the earnings of the property for which the indebtedness was created. While no one in a responsible position in a banking institution, accepting savings deposits, is likely to buy this class of security under any misapprehension, such securities in every case become confused in the public mind with the outstanding obligations of the usual type, and tend to some extent to lower the credit position of the issuing body, and to that extent at least the custodian of savings money is interested in this type of financing.

#### WHY MUNICIPALITIES MUST CONSIDER THE RAILROAD PROBLEM

The railroad problem is one which has had the thought of every serious-minded business man for some years past and if the railroads

## SAVINGS BANK SECTION

are to be closely limited in the amount of revenue which they are to be allowed to earn, there is a serious question as to how ample terminal facilities will be provided in the future. There seems to be a generally accepted belief that up to the present time the problem has been to cover the country with sufficient lines to meet the needs of the various territories, and that the future will see a constantly increasing density of traffic over those lines. Whenever we have had extraordinarily heavy freight traffic on the railroads we have at once been impressed with the lack of terminal facilities, and this being the case, how much more acute will these conditions be as time goes on. The thought has been offered to me by a man who has spent the greater part of his life as an engineer on railroad and steamship terminal properties, that in a comparatively short space of years these facilities are going to be wholly inadequate for even normal traffic conditions and that the expense entailed in delays, labor, etc., in "freight jams" is going to be enormous. In his opinion one of the most unfortunate conditions which is growing out of the present railroad problem is that the acquisition of additional railroad terminal facilities is being delayed. He offers the further suggestion that in his opinion this situation will become so acute that the municipalities will themselves recognize it and will have to meet the condition by installing improvements of this type.

All of the foregoing is leading up to the statement that if such is the case we have in the more or less immediate future another problem for the municipalities to face, which will require the expenditure of large sums, although it is to be supposed that such properties would come under the head of "self-sustaining."

## CO-EXTENSIVE AND OVERLAPPING DISTRICTS

Again referring to the days when a comparatively small amount of gross indebtedness was regarded as necessary to insure the best of credit to the municipality, would say that little or no consideration was given to districts co-extensive with or overlapping a given area, for the reason that such indebtedness, where it existed, was almost negligible in amount. However, with the tendency to spend largely increased amounts of money on educational facilities, and to create separate districts to accomplish some special type of public work these items have mounted until they become a serious consideration. Some of the savings bank acts have recognized this fact by requiring that the indebtedness of all type, for which the assessed property is subject to a general tax, shall be used in determining the eligibility of the investment for funds under control.

The Municipal Committee of the Investment Bankers Association of America, of which I had the honor to be Chairman for several years, has several times given serious consideration to a standard form

of financial statement which would display the indebtedness of the various districts along with the usual statement of the city itself, but nothing of a practicable nature could be worked out. One of the difficulties was to have statements made up as of any given date by the various district officials, for frequently the fiscal periods vary. With the advent of road building on an extensive scale, county indebtedness has increased to such an extent that frequently property in a city which lies within the county is called upon to bear considerable tax to meet the county indebtedness. It therefore follows that this item is one which needs consideration in arriving at a proper understanding of the whole problem. While special assessment debt—i. e. indebtedness for which the city at large is not liable—is not a part of the indebtedness of the municipality there is no question that where large amounts of such bonds are outstanding they have an effect upon the ability of the community to promptly collect general taxes. However, there seems to be no practical way to give more than very general consideration to such items.

#### REALIZABLE ASSETS

In giving a careful analysis to situations in the various communities throughout the country, I have from time to time been impressed with the fact that realizable assets—i. e. water works, lands, buildings, etc., of what might be termed a salable nature as contrasted with street improvements—are worthy of consideration in determining the financial position of a community. This is probably more noticeable in comparatively small communities than it is in the larger ones, for the ownership of such lands and buildings and similar properties as are necessary for the conduct of the community's affairs permits of material reductions in the annual budget as compared with those communities which do not own such properties. I have, therefore, advocated, where such information is available, that it be given along with the other facts. In an older settled community, it is also a "rule of thumb" by which to judge whether in the past monies have been well and judiciously spent or not, and it is often the explanation as to why the municipality has what at first sight appears to be an indebtedness larger than normal.

#### ROAD IMPROVEMENTS

The day has gone by when anyone who has given more than a casual thought to the subject believes that improved hard surface roads are a form of extravagance engendered by the use of the pleasure automobile, for it is not only possible of demonstration by the actual figures which are obtainable from the Department of Agriculture at Washington that such roads are of economic value, but with the use of improved roads farmers and business men in the smaller municipalities



have come to know by their own experience that such is the case. They know, too, without regard to the question of convenience, that before the advent of the improved roads they were confronted with a hauling cost at certain seasons of the year which practically prohibited marketing farm products at those times, whereas now such hauling can be done at a season of the year when they are not busy in their other branches of work. It is also clearly evident that it has made it possible for the profitable cultivation of land at greater distances from the railroad or local markets than was heretofore thought feasible. It has been clearly demonstrated that it is a very foolish policy to try to put down a large amount of mileage when a relatively small amount of funds are available for the work, for either the money is entirely wasted or the upkeep of inferior roads is so great as to much more than offset the smaller original cost. It is but natural, therefore, that the demand for good roads and the willingness to be taxed therefor has increased in recent years. Where the building of roads is kept within reasonable bounds, I have nothing but commendation for such movements. There is, however, a phase of the matter which requires thought and brings up the question as to whether or not in many cases counties and districts have not embarked upon road building programs which bring forth a serious doubt as to their wisdom. The theory of Federal and State Aid in the building of roads was at first thought a very sound one, but the system under which such aid is given in proportion to the amount spent by the local county or community has no doubt frequently resulted in the expenditure of amounts entirely beyond what should have been spent in any given period, and the installation of roads which, to say the least, could and should have waited for a later period. Not only is a road not self-sustaining, but when once installed there is the constant expense to keep it up, so that the expenditure of more than a reasonable amount in proportion to the value of the property which must be taxed to pay the debt may justly be regarded as a cause for impairment of credit.

#### IMPROVEMENTS IN LAWS

While it is evident that the facts and conditions which should be considered in judging of the desirability and safety of municipal obligations have increased, there is one most important development which has tended in the other direction. I have in mind the laws of the various states governing the creation of municipal indebtedness, and providing for its payment. As I believe I have stated before when a municipality had a small percentage of indebtedness as compared with the value of the property in the community it was not a very serious matter as to whether or not proper provision was made for its payment in a reasonable period of time, but as the proportion

of indebtedness to value increases, the piling up of indebtedness for which no proper provision for retirement is made becomes a serious matter.

A few of the states in the early days had laws which properly provided for the payment of bonded indebtedness, whereas I think the statement is now justified that but few of the states lack such constitutional and legislative provisions. In the past it was the first settled states, or those in the east, which were the most lax in regard to this matter, for the newer states as they were created provided in their constitutions and in their laws for a more scientific control of the finances of the political subdivisions. In recent years the tendency has been to correct this, and as is generally known Massachusetts a few years ago put its financial house in order in a very commendable way. That state accepted the principle that bonds should not be issued for a longer period than the reasonable life of the improvement to be installed with the proceeds of the issue, and in fact carried that principle to the point where it is a serious question as to whether they have not in some instances loaded on to the present generation a debt which ought to be paid for by the succeeding generation which would derive equal benefit from the improvements installed. So long as financing is arranged on such a basis, without regard to whether the debt is to be retired by serial payment or an accumulated sinking fund in sufficient volume to pay off the entire debt at maturity, there will be a natural brake on municipal extravagances, for the taxpayer will receive succeeding and unpleasant reminders in the form of tax bills for heavy amounts. In New Jersey some years ago after a very careful survey of the conditions which confronted the various communities in that state, laws were passed of a very commendable character, providing a proper control for the issuance of new indebtedness and the retirement thereof; and for the enforcement of the collection of monies which should have been levied to take care of the then outstanding indebtedness. They carefully limit the life of new indebtedness to the probable life of the improvements, and where no proper provision had been made for the retirement of old indebtedness, require that under refunding operations the debt shall be retired within a reasonable short period of years.

It is to be regretted that many of the public officials were so short-sighted in seeking relief from present tax burdens as to force through a bill for what was generally termed emergency financing but for which I can think of no more fitting term than "pass the buck" financing; and the very men who had done so much to clear up the situation stood idly by, and for political reasons allowed a bill to be placed on the books which materially offsets the very advantages which were sought to be obtained by the previous legislation. As a

consequence much financing which should have been done in a permanent way and on a scientifically correct basis, has now passed through this act so that the indebtedness while outstanding does not have to be amortized and may be left for refunding at the end of the period, when the officials then in office will have to take up problems and burdens which are not properly theirs.

#### CLASSIFICATION OF PROPERTY FOR TAXATION

There is a well defined and laudable tendency towards recognizing that intangible personal property cannot be successfully and permanently placed on the assessment rolls to bear the same percentage of tax in proportion to its value as is imposed upon real property. For this very reason, however, I think there should accompany changes allowing for a classification of property in such a way that the character of the property determines the amount of tax which it should pay, which would limit the debt-making power to a percentage of the assessed valuation for taxation of real property. This follows the provision in the New York State Constitution. It is obvious, it seems to me, that where it may be proper to allow, we will say, a debt of 10 per cent. of the assessed valuations where all the property is taxable at a given advalorem rate, that it is not safe to allow the same percentage of indebtedness to be created against intangible personal property where the tax may be limited to 25 per cent. or less of the rate which is imposed upon real property in the same community. At any rate intangible personal property has no fixed abode and may under changing conditions, particularly under more favorable tax terms in another state, be removed. Objectionable tax limits have in nearly every state been removed and even where limits upon the power to tax to pay indebtedness still exist, they are accompanied by other conditions which prevent the creation of indebtedness when a sufficient tax cannot be provided. For all practical purposes the holder of the securities is protected against one of the conditions which previously brought about the uncertainties and dissatisfaction with municipal securities as permanent investments.

For a long period, or to be exact, from the reconstruction following the Civil War, investors in state and municipal bonds have been comparatively free from loss, and this has no doubt largely contributed to a disposition to purchase such securities without the careful study which is usually expended before money is placed in other types of investments. Most of the thought is given to the question of price, that is, the income yield of a specific security as compared with other similar securities which are available at the time.

With the wider municipal activities requiring the expenditure of large amounts of public funds, it seems to me that it is desirable that the investor should acquaint himself more in detail with not only

the past record and present financial position of the state or municipality, but that he should inform himself upon the probable future policies.

It is obviously impracticable for the private investor to protect himself by any independent investigation, and he will have to continue to place dependence upon the investment banker through whom the loan passes. My own house has always deemed it necessary to carefully inform itself upon the past record and future prospects of a community before recommending its securities, even where the usual investigations into the general financial and physical conditions have proven satisfactory, and it is known that the money loaned is to be spent for a needed and generally desired improvement. If sufficient knowledge is not in hand through previous experience with the same community, a representative is sent to gather the necessary information before a commitment is made.

While the investing public seems to be alive to the importance of the protection afforded by proper investment banking services in connection with other classes of securities, it seems to have disregarded it in the case of the highest grade of Municipal and Railroad bonds.

## ACCEPTANCES—SOUND INVESTMENTS FOR SAVINGS BANKS

JEROME THRALLS

I deem it a great privilege and a real honor to have this opportunity of discussing with you a question that I believe to be of vital concern to every banker in America—the question of the soundness of acceptances as an investment for savings banks.

Do you realize the tremendous power you have in the control and direction of the great institutions that you represent? You can make citizens as well as dollars. You have the opportunity of Americanizing millions of alien depositors and of driving home to them and the others with whom you come in contact, the great lessons of thrift, economy, and industry. These lessons, if learned and practiced, mean happiness and prosperity; they mean a greater and more powerful nation; they mean the stamping out of the seeds of discord and discontent, which now retard the progress of America. You have in your control, resources aggregating more than \$7,000,000,000, of which I understand, about 52 per cent. is invested in real estate mortgages and real estate loans; 16½ per cent. in railroad bonds; 8 per cent. in United States liberty bonds, victory liberty loan bonds, and short term treasury bills; about 4½ per cent. of what might be termed miscellaneous securities; 13 per cent. in other public securities and about 6 per cent. in actual cash in vaults and with depository banks.

The savings banks of America are no doubt in a stronger and sounder position now than at any other time in their existence. I believe that they are able to meet any demands that may be made upon them. We have had occasional scares such as the one a short time ago, when it was reported that many millions of alien depositors, having balances averaging about \$3,000 each, were preparing to withdraw their deposits and return to their native lands. It was estimated that these people would take away from the United States between four and six billions of dollars. The estimates as to the number of alien depositors run as high as seventeen million. We all know that by the most careful selection, we would not be able to find seventeen million savings bank depositors, each of whom has to his credit, \$3,000. This scare was therefore largely unwarranted. I believe, however, that if we have in this country, a great number of aliens who have been here sufficient time to take out citizenship papers, and they have not done so, and have to their credit in the banks \$3,000 respectively, they are a most dangerous asset and the sooner they leave our shores, the better off we will be.

The fluctuation in foreign exchange has in certain instances caused heavy withdrawals from savings banks.

#### SAVINGS BANKS NEED ACCEPTANCES

A savings banker told me the other day that his bank had been confronted with heavy withdrawals. On making investigation to determine the cause, he found that his depositors were withdrawing their money for the purpose of buying lire at 160 for \$100. A few days later, these depositors were dumping the lire back on the market at 190 for \$100 taking their losses and redepositing the money in the savings bank.

The responsibilities of savings banks are constantly broadening and their relation to the commerce and industry of the country is growing closer and closer. A portion of the resources of the savings banks can to their advantage be safely applied in a way that will further the commerce and industry of this country and aid in the development of our export and import trade.

Even though your institutions are in a strong position, I believe the general character of your assets can be improved, your position can further be strengthened and your earnings can be increased by the investment of a certain portion of your resources in prime bankers' acceptances.

The war brought the need for applying every dollar's worth of resources in the way that will attain the maximum of results. The use of the acceptance method of financing and merchandising—is a great step forward. Through it a like amount of capital is made to do a greater amount of service and the business of the country is

put on a safer and sounder basis. In other words the dollar is made more efficient and credit is made more effective. The growth in the use of the American bankers acceptance has been steady and along the right lines. It has been as rapid as could be expected under the conditions which have prevailed since the system was inaugurated in this country.

Out of America's 30,000 banks and trust companies at least 25,000 can avail of the acceptance privilege, that is, can grant acceptance credits, lend their credit to their patrons in addition to lending their money. A banker's acceptance may rightfully be defined as being a bill of exchange, the acceptor of which is a bank or trust company, or a firm, person, corporation or company engaged in the business of granting acceptance credits.

Under the provisions of Section 13 of the Federal Reserve Act, any member may grant such credits aggregating an amount equal to 50 per cent. of its combined capital and surplus. These credits may be granted in connection with (1) transactions involving the importation or exportation of goods, (2) domestic shipments of merchandise, (3) the storage of staple commodities.

Upon application to and with the approval of the Federal Reserve Board, a member bank may be authorized to accept in the aggregate up to 100 per cent. of its combined capital and surplus. In no event, however, is a member bank permitted to accept in excess of 50 per cent. of its combined capital and surplus in connection with domestic business. There is a further provision under which, upon application to and with the approval of the Federal Reserve Board, any member bank may be privileged to accept in the aggregate, an additional amount equal to 50 per cent. of its combined capital and surplus, for the purpose of creating dollar exchange. Under this provision, banks in foreign countries and dependencies of the United States, draw against American banks who in turn accept the bills.

#### EXTENT OF ACCEPTANCE HOLDINGS

On March 1, 1919, 362 American banks and trust companies were availing of the acceptance privilege. These institutions had outstanding at that time a total volume of \$451,000,000 worth of acceptances. They had through the utilization of this privilege granted to the commerce and industry of this country, that additional amount of credit. It was within their power to accept a total of \$1,027,000,000. In other words, these 362 banks were enabled to finance export and import business, domestic transactions and storage of staple commodities to the extent of \$1,027,000,000 over and above what was heretofore possible. These institutions it will be noted exercised less than 44 per cent. of their acceptance privilege.

In addition to the great acceptance power that is enjoyed by the

incorporated banks and trust companies a number of strong well known private banking houses such as J. P. Morgan & Company, Kuhn, Loeb & Company, Brown Brothers & Company of New York have filed statements and made necessary arrangements with the Federal Reserve Board and the Federal reserve banks, under which they are now privileged to do an acceptance business. A number of accepting houses and other large corporations have recently been organized with their principal function being that of accepting or granting acceptance credits. One of these large corporations recently opened for business in New York, with a capital of \$5,000,000 and surplus of \$1,000,000 fully paid, so that we now have in America a tremendous acceptance power yet to be utilized.

In the face of this, however, some of our friends have already suggested that the Federal Reserve Act be amended so as to permit member banks to accept up to say, 200 per cent. of their combined capital and surplus. It seems to me if the limit is raised it should be done under very close restrictions. Possibly the additional power should be granted only through the consent of the Federal Reserve Board or some recognized body that will exercise the proper supervision. The one thing that is needed in the furtherance of the acceptance method of financing is extreme care to the end that this method of financing will be conservatively and properly used, and that only high grade bills will arise.

#### VALID INVESTMENT FOR SAVINGS

The laws of practically all the states have been so amended as to permit savings banks to invest a certain portion of their resources in high grade bankers' acceptances. In many of the states the savings banks are further permitted to invest in trade acceptances endorsed by first class banks. Some months ago there was considerable demand on the part of savings bankers for an amendment to the Federal Reserve Act designed to permit savings banks to join the Federal reserve system. There is a way open to the savings banks under which they can get the protection of the Federal reserve system without becoming members and that is by maintaining a portfolio of high grade endorsed bankers' acceptances. These bills can be sold in the open market any day of the week. They can be sold by the savings banks direct to the Federal reserve banks.

The Federal reserve banks have cheerfully aided in the development of the open discount market. They are not, however, obliged to buy acceptances. This is a function that they may perform at will. It was originally intended as a means through which the Federal reserve banks might regulate and control interest rates and it is hoped that as time goes on the market will be self-sustaining. In fact, in our experience to date, we have yet to learn of a time when a strictly

prime banker's acceptance could not be sold in the New York market.

I believe that the savings banks of this country can at this time safely invest at least 50 per cent. of their cash reserves in high grade bankers' acceptances. Savings bankers that decide to place a portion of their funds in bankers' acceptances should use extreme care to the end that high grade bills only are selected. I would warn the savings bankers against selecting bills that yield the highest rate of return; in other words, I would not recommend the investment in bills that yield a return from 5 to  $5\frac{1}{2}$  per cent. I would recommend the purchase of bills that are now selling in the open market at about  $4\frac{1}{4}$  with maturities of 60 to 90 days. That is, bills which are eligible for purchase by the Federal reserve banks in the open market operation; bills which are collateralized by staple commodities, the sale of which will yield the money with which they are to be liquidated; bills on which you have primarily responsible as acceptor, a bank of unquestioned soundness; bills which are drawn by high grade merchants, manufacturers, exporters or other business men whose reputation and standing are beyond question. In such bills you have a character of paper that is unsurpassed, paper that can be converted into actual cash on a moment's notice and which while earning you  $4\frac{1}{4}$  per cent. serves as a real reserve, answering the same purpose as will a balance with your depository bank.

I have in mind one savings bank that invested some months ago in 90 day acceptances of the character described. About 30 days after this savings bank made its investment, it was confronted with heavy withdrawals making it necessary for the bank to withdraw its balance from its depository banks, borrow against government bonds or to sacrifice its high grade securities on the market. Instead of taking either of these courses, this bank telephoned the corporation with which I have the honor to be connected; we immediately purchased the bills at the rate of discount of  $4\frac{1}{4}$  per cent; so within 24 hours the proceeds were in the hands of the savings bank and enabled it to meet the demands of its depositors, the bank having earned  $4\frac{1}{4}$  per cent. on its investment where it would have earned but  $2\frac{1}{4}$  to  $2\frac{1}{2}$  per cent. on a bank balance. It was also relieved from suffering any loss in a hurried sacrifice of its securities.

#### FEDERAL RESERVE BANKS PURCHASE ACCEPTANCES

In order to prove the soundness of bankers' acceptances and to give you an indication of the growth of this character of business, I believe the action of the Federal Reserve Board and the Federal reserve banks is worthy of being brought to your attention. We all know that the Federal reserve banks exercise great care and are unusually conscientious in their efforts to see that their investments are of the highest character. The Federal reserve banks according to the



reports of the Federal Reserve Board purchase in their open market operations in the year 1916, bankers' acceptances aggregating \$386,000,000. They purchased in 1917 an aggregate of \$1,077,000,000, in 1918 an aggregate of \$1,809,000,000 and during the first seven months of the present year the Federal reserve banks purchased in their open market operations bankers' acceptances aggregating \$1,369,000,000 or at the rate of slightly over \$23,000,000,000 per annum. Possibly 75 per cent. of these bills were based on export and import transactions; 64 per cent. of the total were accepted by banks located in the cities of Boston and New York.

Another indication of the soundness and stability of the bankers' acceptance is evidenced by the steady discount rate which is maintained thereon. During the past ten months, the rate of discount on bankers' acceptances—that is the buying rate—has fluctuated only 1/16 per cent. of 1 per cent. and this fluctuation was on bills of maturities from 80 to 90 days only, and over a period of only a few days. During this same period the rate on stock exchange call loans fluctuated from 4 per cent. to 20 per cent. and you do doubt have watched the fluctuations in the values of railroad bonds and other securities which go to make up the resources of the savings banks.

#### SERVICE BY DISCOUNT COMPANIES

The corporation with which I am connected has arranged a plan under which it holds in trust for savings bank investors, the acceptances which they purchase, looking after the collection of the bills as they mature and attending to the other details. Other reliable discount houses and dealers are no doubt perfecting similar arrangements so that through the use of the telephone, the bills held for the account of any savings bank may immediately be disposed of and the proceeds placed with depository banks, thereby, being made available instantly if required. Some savings banks have filed with us a list of the banking concerns whose bills they are authorized by their respective boards of trustees to purchase; then when such savings banks desire to invest a certain sum in acceptances they merely telegraph us for an assortment of the names in question; the bills are immediately placed in trust for the savings bank in question, delivered to their depository bank or sent by registered mail as directed.

#### SELECT ACCEPTANCES WITH CARE

I would again suggest the exercise of care to the end that savings banks invest in strictly high grade bills, that is, bills that are drawn by a good concern, accepted by a high class bank and collateralized by a readily marketable staple. If you have a bill of this character, a member or approved bank endorsement you can go direct to the Federal reserve bank and sell it or you can dispose of it any day

in the open market. A savings bank with a good portfolio of this character of acceptances is in an enviable position when it comes to meeting unusual demands that may be made by its depositors. The reason bankers' acceptances are so readily taken by the Federal reserve banks is that they serve as a basis of currency issue and are self liquidating.

#### SOURCES OF ACCEPTANCES

**DELEGATE:** Where does your corporation get the bills which it offers?

**MR. THRALLS:** The approved plan of procedure on the part of a bank when it has accepted for one of its customers is to turn the acceptance back to the customer, it then being the duty of the customer to find a market for the bill. In many cases it has become desirable to deviate from this rule. In fact, I believe the majority of the bills are marketed by the acceptors acting as agents for the drawers.

We get our bills from three sources. 1—the drawer; 2—an intermediary bank or concern that negotiates or endorses the bill; 3—from the accepting bank. You can readily see that in many cases the accepting bank can serve advantageously as the agent of the drawers in marketing acceptances. For illustration—We buy the bills of a certain bank in New Orleans. We will assume that this bank has in the course of its day's business accepted ten bills of \$50,000 each for ten different importers. Instead of each of these ten importers sending wires to a number of New York dealers for quotations on the bills, the bank which accepted them can get the quotations for all the merchants by sending one telegram; thus the expense of nine or more messages from New Orleans to New York and nine or more replies is obviated. The bills come to New York in the one enclosure and there is resulting economy in the handling of this transaction on every hand.

#### BANK AND TRADE ACCEPTANCES DISTINGUISHED

**MR. BEACH:** Is there a higher grade security back of a banker's acceptance than there is back of a trade acceptance endorsed by a bank or trust company which is a member of the Federal reserve system?

**MR. THRALLS:** It was my understanding that I should confine my remarks to bankers' acceptances but if it is your desire that I should discuss trade acceptances, I shall be happy to do so.

**MR. BEACH:** I beg your pardon, but I ask that question for the reason that I should like to have in the records of this meeting exactly what the difference is.

**MR. THRALLS:** A trade acceptance is a draft drawn by the seller of goods on the buyer, accepted by the buyer to be paid at a certain

place on a certain day. It covers a current transaction or current transactions in merchandise. The goods which it covers pass out of control of the drawer; that is, they do not remain under control in such way as to make them security for the final payment of the acceptance. In other words, a trade acceptance is simply the promise of a buyer of merchandise to pay the purchase price thereof at a specified time and place. No collateral is tied up, while with the banker's acceptance you usually have responsible, primarily, a banking house of unquestioned standing; 2nd, you have responsible thereon a high grade merchant, exporter, importer, or other business man, and 3rd, the banker's acceptance is usually collateralized until finally paid by security which has a ready market and of sufficient value to liquidate the bill.

For illustration—a quantity of wool is placed in a bonded warehouse. It will be covered by ample insurance and will be locked up subject to removal only upon the surrender of the warehouse receipt which the bank holds as security for the acceptance credit it has granted. In the course of business and in the movement of the wool from the warehouse to the point of manufacture it becomes necessary for the bank to surrender the warehouse receipt, but it gets in lieu thereof, the bill of lading and from that point until the time the acceptance issued against the wool is paid, the bank remains secured.

#### TRADE ACCEPTANCES AS "TWO-NAME PAPER"

**DELEGATE:** Is the trade acceptance much different from two-name paper?

**Mr. THRALLS:** The trade acceptance is two-name paper. It covers a current transaction or transactions in merchandise. It is, as stated before, the promise of a buyer to pay the seller at a specified time and place the purchase price of goods. There are, however, other classes of two-name paper, such for instance as an accommodation note bearing an endorsement or bearing two signatures. It is understood that trade acceptances are self liquidating or at least that the goods which they cover will be sold during the life of the bills, and that the acceptor will through the sale of the goods have the funds at the maturity of the acceptance, with which to pay it. Extreme care should always be exercised in the purchase of paper regardless of what title it bears.

When purchasing trade acceptances, careful investigation should be made as to the standing and character of the acceptors, the underlying transaction the bill covers and the character and standing of the drawer. I heard a story concerning two of America's famous men. Whether true or not, it will serve to illustrate the necessity of carefully investigating all names on any paper that is purchased by a savings bank. It is told that Daniel Webster went to the bank that

was succeeded by the Riggs National Bank of Washington, D. C. and made application for a loan of \$250. He was informed by the cashier that under the bank's rules it was necessary to have two names on every piece of paper taken. Mr. Webster replied that he believed he could fix that feature of the proposition up all right. He left the bank and went down the street a few blocks where he met Henry Clay. He told Mr. Clay of the situation. Mr. Clay said, Mr. Webster, I will be very pleased to sign the note with you but have one suggestion to make and that is, that I need \$250 and that we make the note for \$500, both sign it, you take \$250 and I will take \$250 and the bank's rules will be conserved. I understand that this note, while never paid and while yet in the hands of the Riggs National Bank is valued far in excess of \$500 but it would not serve as the kind of paper a savings bank would like to have with which to pay its depositors.

**DELEGATE:** Suppose a banking house has the note of a high class concern. It can be discounted at  $5\frac{1}{2}$  per cent. and the member bank can go to the Federal reserve bank and borrow money on it at  $4\frac{1}{2}$  per cent. Is there anything more desirable than this class of paper?

**MR. THRALLS:** In the first place a savings banker could use such paper only in connection with getting accommodations from his depositary bank. Further a rate of  $4\frac{1}{2}$  per cent. would be granted only on the bills of maturities of fifteen days or less. Furthermore, there is a much better class of paper. It is the paper of the same concern accepted by a high grade bank and secured by shipping documents covering exports and imports. I know that every one in this room believes that strength is added to any bill when that bill is endorsed by a high grade bank. Prime bankers' acceptances should bear the endorsement of a high grade bank as well as being accepted by the same character of institution. They serve as a basis of currency issue and can be converted into actual cash without even the additional endorsement of the savings bank holder being required and they command a better rate than does commercial paper or trade acceptances.

#### ACCEPTANCES AS "FOREIGN" BILLS

**MR. DINWIDDIE:** Do you understand that of the securities that are put on the market, many millions of them are foreign securities or would be otherwise known as foreign bills?

**MR. THRALLS:** There is no objection to terming bills based on exports or imports as foreign bills. They arise out of foreign trade transactions but are usually accepted by a high grade American bank, trust company, private banker or acceptance house.

**MR. STRONG:** Mr. Thralls, will you please discuss the bills that grow out of imports and show that the bills are endorsed by foreign banks?

**MR. THRALLS:** An importer will go to a New York bank, arrange for a letter of credit in favor of a Japanese concern from which the New York importer desires to purchase goods; the Japanese concern will draw a draft under this letter of credit on the New York bank in question; it will then take this draft to a bank in say, Yokohama, attach to the draft an ocean bill of lading covering the goods which have been placed on board steamer, (and insurance policy if credit so stipulates.) The bank will buy the bill, send it to its New York agent with the bill of lading attached. The New York agent of the foreign bank will take the bill to the bank in New York on which it is drawn; that bank will accept it, detach the bill of lading, return the bill to the agent of the foreign bank; the agent will then endorse it and sell it in the open market for the account of its Yokohama correspondent. This is the way the foreign bank endorsement arises.

#### INVESTING CASH RESERVES IN BANK ACCEPTANCES

**MR. DINWIDDIE:** Can banks paying 4 per cent. on deposits afford to buy acceptances at  $4\frac{1}{4}$  per cent.

**MR. THRALLS:** Savings banks paying 4 per cent. on deposits, carry about 6 per cent. of their resources in what is known as cash reserves,—money in vault and balances with depository banks. The balances with depository banks earn about  $2\frac{1}{4}$  per cent. The money in vault earns nothing. I believe that one half of the funds carried as cash reserves by savings banks might safely be invested in bankers' acceptances, yielding  $4\frac{1}{4}$  per cent. By so doing the earnings of the bank will be increased because it will be getting  $4\frac{1}{4}$  per cent. on funds heretofore earning nothing as well as  $4\frac{1}{4}$  per cent. on funds heretofore earning from  $2\frac{1}{4}$  per cent. to  $2\frac{1}{2}$  per cent. I would further suggest that the savings bankers who are paying 4 per cent. should plan to discontinue the practice of paying high rates at the earliest possible date.

#### BANK ACCEPTANCES VS. TRADE ACCEPTANCES

**MR. KINGSBURY:** While you did not say anything against trade acceptances, but spoke in their favor, do you not think trade acceptances well selected are a good paper for a savings bank to handle?

**MR. THRALL:** Next to bankers' acceptances, trade acceptances are the best character of commercial paper that is available. I do believe, however, that savings bankers who do not have well equipped credit departments ought to begin investing in the highest type of paper first and then work up to trade acceptances endorsed by banks. There are a good many dangers in connection with trade acceptances that do not pertain to the bankers' acceptances.

## EFFECT OF U. S. FINANCING ON ACCEPTANCE MARKET

**MR. SATTERLEE:** Will the stoppage of the issuing of United States government bills have any effect on the bankers' acceptance rate and on the discount market?

**MR. THRALLS:** One of the greatest obstacles that we have faced in the effort to sell bankers' acceptances is the fact that the United States short term treasury bills, yielding from  $4\frac{1}{2}$  to 5 per cent. have been available and are recognized as a preferential investment, particularly for savings banks.

It is quite likely that the government will continue the issuance of short time treasury bills for a period of many months, but in constantly decreasing volume. With the decrease of such bills the demand for bankers' acceptances will increase. The rates of the Federal reserve banks have been held at an artificial figure in order to protect the government financing. Then this financing is out of the way and the supporting pegs are removed there will doubtless be considerable fluctuation in rates.

Another difficulty that has confronted the acceptance dealer in the effort to develop the open market has been their inability to get funds at reasonable rates with which to carry their portfolios. You can readily see that should an acceptance dealer buy ninety day bills at  $4\frac{5}{16}$  per cent., carry them thirty days against a loan rate of  $4\frac{1}{2}$  to 6 per cent. then sell the bills at  $4\frac{1}{4}$  per cent., the dealer would be losing money. In order to make any profit it is necessary for the dealers to turn over a tremendous volume of bills. I believe the dealers of New York are now carrying an aggregate in their portfolios of about \$80,000,000.

## DEALER'S PROFITS ON ACCEPTANCES

**DELEGATE:** What profit do the dealers make in handling acceptances?

**MR. THRALLS:** The average profit is about  $1/16$ th of 1 per cent. per annum.

## CONCLUSION

I believe that 2,000 savings banks of America will soon become investors in bankers' acceptances. By investing in such bills they will not only be improving their general assets and increasing their earnings but they will be rendering a valuable aid to our domestic commerce and industry and at the same time will be aiding America to extend her foreign trade and to hold her place as one of the great commercial and financial powers of the world.

There is one thought that I would like to leave with you savings bankers. It has nothing to do with acceptances but it is of vital importance. You come in contact with a greater number of foreigners than any other class of business men of America. It seems to me

that if every savings bank would station men and women in its lobbies of their respective banks who can speak the languages of its foreign customers and have those men and women teach to their customers the spirit of Americanism and the underlying principles of production, labor and the other great problems, a tremendous good for the entire nation would be accomplished.

#### DISCUSSION: ACCEPTANCE VS. CERTIFICATION

**MR. KOPPEL:** Mr. Thralls, you are addressing savings bank men from all over the United States. Would it not be proper to state that if the laws for savings banks in all the states were along the same lines, as far as concerns acceptances, as are the laws in the State of New York, this discussion would be unnecessary?

Under the New York laws, a savings bank may purchase acceptances that are of a character that is nothing more than a certified check—a certified check of a bank that any banker would take without question, the only difference being that the acceptance is payable in sixty, eighty or ninety days. If you gentlemen, from other sections of the country will take the New York state laws as an example you will not have any misgivings and you will not have to employ the term “danger” or any other term which puts a question on the safety of your investments.

**MR. THRALLS:** Mr. Koppel has characterized a bankers’ acceptance as being as good as a certified check.

I will go one step further and say that a high grade banker’s acceptance is better than a certified check for the reason that the certified check if certified at the request of the holder does not have the security behind it and the drawer is released from responsibility thereon. If the bank fails you are a creditor of the bank and will be protected to the extent of your pro rata part of the resources. In the case of the banker’s acceptance, if the bank fails you can then look to the drawer and can also hold the collateral which is security for the payment of the acceptance.

A banker’s acceptance is likewise better than a bank balance. It is an excellent reserve,—can be converted into actual cash any day,—and is a sound, safe and convenient investment for a savings bank.

## THE MENACE OF TAX-EXEMPTION

KINGMAN NOTT ROBINS

Tax-exemption is as old as our systems of taxation, but it is only within the last three or four years that the policy of tax-exemption has become so great a menace to our institutions and our business fabric. We see that tax-exemption as we have it today is not an

academic problem in economics, but a practical matter of great and vital concern to everyone of us when we realize that it threatens:

1. The very existence of the best features of our taxation system, particularly the income tax; and

2. To give government agencies such an advantage over private business in borrowing funds that this advantage alone is enough to make a government monopoly of the government instrumentality thus subsidized.

Only the single taxpayer and the State Socialist will face such an outcome without concern. All others, when they realize the facts, must join the ranks of those who are opposing all measures to continue and extend these exemptions.

#### GOVERNMENT MONOPOLY OF BANKING

As bankers we have particular reason to beatir ourselves, for the reason that the menace of this tax-exemption "craze" most directly concerns banking. Absorption of the banking functions of the country by the government is, in the history of State Socialism, the most important first step in the general socialization of business, for with the control of the purse string goes that other control which the State Socialist seeks. There is no more subtle and withal simple means of putting private enterprise in banking out of business than to create a government banking instrumentality and to give it the special privilege of freedom from all taxes. If the banker will figure out how much his bank would save if it were free from all taxes of any character, he will quickly see the force of this assertion. Tax-exemption alone is enough to put the government institution in such a favored position that it can eventually monopolize the field, even if less efficiently managed than its private competitors.

The first encroachment of government on this basis of special privilege and subsidy in competition with private enterprise, was in the field of farm mortgage banking, through the creation of the Federal farm loan banks. Their success in disposing of their bonds to the public at an interest rate about 1 per cent. below the going average rate on taxable mortgages is admittedly owing to the tax-exempt feature, but it is enough to give the government agencies a monopoly of the field unless they are managed with hopeless inefficiency.

It is now proposed, in bills pending in Congress, to extend these subsidized government agencies into the field of city mortgage banking, personal credit banking, and export trade banking. The proposed Federal home loan banks, personal credit banks, and banks for financing the export business, would potentially occupy, with the existing farm loan banks, practically every banking field on a tax-exempt basis. Monopolization by these government agencies of the banking business of the country may not be the aim of the sponsors of these measures,



but it is certainly a logical possibility, and the least that may be said is that these measures provide for a vast scheme of unfair competition for the present banking interests of the country.

There is space here only to suggest the dangers of this movement to the banking business. The other dangers, no less alarming, can also only be mentioned briefly.

#### NULLIFICATION OF THE INCOME TAX

The nullification of the income tax is one of the most serious results of exempting securities from taxation, how serious we may judge from the fact that securities already outstanding or authorized, which are fully or partially tax-exempt, aggregate nearly 30 billions, or 40 per cent. of the total national wealth, apart from real estate, in 1912. At the rate we are going in the creation of new non-taxable issues, how long will it be before the proportion of non-taxable personality will not be 40 per cent., but 50 per cent., 60 per cent. and more, and the income tax in individuals rendered ineffective, except as derived from salaries and like earnings? After years of agitation to relieve real estate of a burden of taxation that was rapidly becoming unbearable, especially in the large centers, and after years of aggravation and inequity in the administration of a personal property tax of the old type, we have come to the income tax as the most equitable and fair and effective means of taxing in accordance with the "ability to pay." We already have a Federal income tax and income taxes in several of the states. Tomorrow we shall undoubtedly have them in the cities. They are the obvious solution of our problem of carrying our growing burden of taxation for all the evidence points to permanently higher levels of public expenditure and taxes than before the war. The debt of the United States has grown 25 billions in 6 years, making the annual interest burden alone equal to the total revenue of the government in the last pre-war year, and equal to 20 per cent. of the estimated annual increase in national wealth. This interest burden *plus* the amortization of the debt *plus* the rapidly growing public expenditures in connection with both new and old functions of government, forbid any material reduction in the rates of the Federal income tax. As for local taxation—state, county and city—the increase in revenue from taxation must be rapid to keep pace with a rate of growth in expenditures that is even greater now than in the decade of 1902-1913 when the increase was 113.2 per cent. as compared with a growth in national wealth for the same decade of only 75 per cent.

It would be financial suicide to destroy the income tax revenue from securities, and put all the burden on service incomes and realty, in the face of such a situation, and yet that is exactly what we shall be doing if we do not at once remove all the tax-exempt features of

future issues of securities. There may be a Constitutional question involved in the question of making taxable the issues of municipal and state governments, but no such question affects the issues of the federal government and its agencies. Canada saw her mistake in making her victory loan tax-exempt, and her new loan is taxable. Ohio has seen the light, and made her municipal obligations taxable within her borders. How long will it take the other states and the Federal government to apply common sense and simple arithmetic to their financial policies, and to realize that the making of any securities tax-exempt robs them of far more revenue than can possibly be saved to them or their beneficiaries by exemption? The truth of this is well illustrated by Congressman McFadden of Pennsylvania, in his speech of June 16th last, when, in speaking of the operations of the Federal farm loan banks, he said:

#### COST OF TAX EXEMPTION

"We will take the case of a farmer, an Iowa farmer, for in that state the average beneficiary of this government charity owns property worth at least \$15,000. This farmer has a loan of 6 per cent. from some private institution. He replaces it by a loan from the Federal farm-loan bank of  $5\frac{1}{2}$  per cent. He saves \$5. The \$1,000 that the farmer receives represents a bond bought by a millionaire investor. Being tax free, the entire \$50 interest that the millionaire investor receives on this bond he puts in his pocket instead of giving \$33.50 of it to the government, as he would if it came from other security. In local taxes this \$1,000 bond escapes at least \$5 additional taxes. Here is the net result of this government owned and operated bank scheme as at present run:

#### *On a \$1,000 Loan*

Farmer saves.....	\$5.00
Multimillionaire makes .....	38.50
Federal government loses income tax.....	33.50
Local government loses various taxes.....	5.00
American people pay.....	38.50
To give farmer.....	5.00
Costs American people.....	7.70
To give farmer.....	1.00

(These computations were made when the revenue law of 1917 was in effect. Under the law of 1919 the cost would be greater.—W. E. H.)

"Never in the history of government has there been such an obnoxious and vicious example of taxing all the people for the benefit of the rich. Never has there been such a vicious and unjustifiable example of class legislation. If these farmers, owning, on an average, property

worth more than \$5,000, must be the objects of government charity, then it would cost about one-eighth of the present plan to give them the money direct.

Mr. McFadden's calculation was based on the maximum surtaxes of the 1917 law. Experience shows the justification for using these maximum calculations in the fact that these tax-exempt securities tend to concentrate in the hands of the heaviest tax-payers and are held by them for the express purpose of reducing their taxes in the higher brackets. The tables of comparative income on taxable and non-taxable bonds show that the large tax-payers get as much net income from a 5 per cent. tax-free farm loan bond as from a taxable bond yielding from 17 per cent. to 22 per cent. It is obvious by comparing these ratios of return with the difference in yield on taxable and non-taxable securities at the present market price, that the borrower on tax-free securities does not gain what the tax-payer saves by buying them. Four-fifths, at least, of the tax-payer's saving in taxes is a net loss to the state and its beneficiaries, on the basis of these reasonable calculations.

#### THE HARDSHIP ON PRIVATE BORROWERS

These comparisons of the relative returns to the investor on tax-free and taxable securities bring us to another serious danger in the present situation. We have seen that a taxable security must pay 17 per cent. to 22 per cent. to the millionaire to warrant his purchase of it in preference to a tax-free bond. Even the man with a taxable income of \$50,000 to \$100,000 must get from 8 per cent. to 14 per cent. on a taxable bond to retain as much net income as he would derive from a 5 per cent. tax-free bond. In such a state of affairs, what is the corporation or individual who must borrow without the government subsidy of tax-exemption going to do? No staple business can continue to pay rates that will compete with these rates we have quoted as being necessary to interest the wealthy investor in taxable securities. Already we have the spectacle of the strongest companies in the country paying a gross rate of 8 per cent. for money, while the cross-roads village borrows at 5 per cent. Tax-exempt municipal securities for 1919 will aggregate \$600,000,000.

The tax-exempt obligation of the frontier farmer commands a more favorable rate than the bonds of the United States Steel company or the underlying utilities. The New York State Commission on Reconstruction has recommended that urban real estate mortgages to the amount of \$40,000 in the hands of the holder be exempted in order to save the plight of borrowers in the cities, and to relieve the housing situation. The President of the largest city mortgage company in the country testified that "Investors are running away from mortgages and will continue to do so, (because) government bonds just

issued paying 4½ per cent. yield a larger (net) return than 5 per cent. and 5½ per cent. mortgages."

What is true of the unsubsidized borrower on real estate mortgages is not less true of other classes of borrowers. All private enterprise in the country is threatened, for the competition of tax-exempt securities has only just begun to make itself felt, and must increase as refunding operations become necessary and the volume of tax-exempt securities increases. Imagine the consequences, for example, if railway and public utility securities were to be sponsored by the government, as is proposed in many quarters, and this vast volume of securities made tax-exempt. On the other hand, how are these vital services to be financed, not only for present but future needs, if they must compete in the market with tax-exempt securities?

#### THE EFFECT ON THE MARKET FOR TAXABLE SECURITIES

The final danger to which we would call attention here, is the effect of this growing volume of tax-exempt securities on the market price of taxable securities. As the quantity of tax-exempt securities increases, they will naturally become cheaper through the operation of the law of supply and demand. At the same time, as the price of non-taxable securities falls, and the yield increases with the increase in the supply, these tax-exempt securities must become increasingly attractive to the investor. There must consequently be a corresponding decrease in the sale-ability of taxable securities, and a fall in their price. This process, therefore, must inevitably depress the value of taxable securities now outstanding, with disastrous results to the holders. No investors will view this impending depreciation in taxable securities with more alarm than the officials of the savings banks.

We confront an impossible dilemma, fatal both to new enterprise and our present business fabric, unless an immediate halt is called on the issue of tax-exempt securities, and outstanding issues retired as rapidly as possible.

#### SUMMARY AND CONCLUSION

This drastic solution of the problem seems so obviously necessary as to require no further support. Briefly summarizing the argument, we find that the exemption from tax of the securities of government and government agencies:

1. Tends to create a governmental monopoly of the business of finance and banking.
2. Destroys the equitable working of our taxation systems, nullifying the income tax, and putting the burden on realty and those taxpayers least able to bear the burden.
3. Threatens to depreciate the value of outstanding taxable securities, and to make the financing of private business impossible, and

4. Thereby forces private business to seek government aid, and
5. Consequently destroys private initiative in business, and
6. Thus progressively checks all national progress and forces the country backward rather than forward.

Every tax expert and economist in the country who has expressed himself on tax-exemption has condemned it. It has no defenders on any pleas but those of opportunism or special interest. It is a disease of the economic system that began in a small way, unobserved by any but experts, but it has now reached the acute stage, where the surgeon's knife is required to save the patient. Opiates will only make the case worse. The patriotic citizen will operate without delay, by supporting every measure to repeal existing tax-exemption privileges, and by helping to defeat every project for new tax-exempt issues.

**PRESIDENT LERSNER:** Before any questions are put to Mr. Robins on his interesting paper, I would like to make the comment that I believe it is true as to every banker that it is the most significant and interesting period in any man's career where he is in that state of transition from Vice President of the Association today to President of it tomorrow, and where you can secure that unique figure if you were to leave it to an audience I am sure that they would only be evincing ordinary common sense to avail themselves of that privilege. We fortunately are in that position today, and I am going to ask Vice-President Richard S. Hawes to say a few words.

**MR. HAWES:** Mr. President and members of the Savings Section, I had not anticipated this courtesy, but I am grateful for the opportunity of appearing before your Section for a few moments, and I shall not burden you long.

We people in St. Louis, when we invited you here, anticipated giving you a warm welcome from the heart, but we did not think we were going to give you a warm welcome from the outside, and this unusual nationwide weather, particularly unusual for St. Louis, is distressing to us indeed, although we understand it is ten degrees cooler here than anywhere else, and you will remember that a great deal of the warmth will be occasioned by the great heartbeat of hospitality receiving you in St. Louis. (Applause.)

I am particularly pleased to appear before this section, of

which my friend Victor Lersner is the President. During the past year the experiment of adding the Presidents of the large sections to the Administrative Committee was tried out and not found wanting. It was the best and most democratic and constructive measure that the Association has ever adopted.

I want to say to you during the past year, while it has been my pleasure to sit on that committee with your President, we have had some very delicate problems involving policies between sections, between kinds and characters of banks, and also administrative problems. In the interim between the Council meeting and your convention meeting, the Administrative Committee is what its name indicates—the administrative body of the American Bankers Association. It is the most important committee, and it is my great pleasure as your Vice-President to certify to the fact that no other man sat on that Committee whose counsel was listened to with greater respect, and whose every evidence of fairness, equity and justice was more apparent at all times than Victor Lersner. (Applause.)

He is my personal friend and he is your representative, and I am glad to carry that message to you. I am sure the President of the Association would do it if he were here. I understand he appeared before you yesterday.

You of the Savings Bank Section have a peculiar interest in this convention; one that doesn't touch the commercial banks so vitally. I refer to the industrial unrest and the present economic conditions which seem to prevail all over the world, and which prevail in our country only to a less extent. In my judgment, gentlemen, you as American bankers have upon you a responsibility which as a body you should take home and recognize. You must take your part in the solution of industrial conditions. You must counsel with your friends and you must fearlessly take the side of right.

You must stamp out in your midst wherever you find it the spirit of radicalism and Bolshevism and impress upon them always the true American spirit of liberty and co-operation for mankind. (Applause.)

I think that is our sacred duty as bankers; and I do not minimize the situation. Some of us pass it over, and some

of us think it doesn't amount to anything more than talk or paper propaganda; but I had the pleasure the other night of listening to Ambassador Francis of Russia who has just returned from three and one-half years of direct contact with the Bolshevik movement. He certifies to the fact that millions of dollars have been sent to this country for propaganda work; that every Russian has been reached whom it was possible to reach, and the endeavor has been to ferret into this country and to get under the skin of the free and fair and honest American laboring man. Those horrible and terrible catastrophes which have been visited upon Russia he will tell you about himself, and he doesn't minimize the danger to this country. He says that the American citizen must face it; and in my judgment, gentlemen, while I hold no brief for union labor in the slightest degree, I seriously oppose certain things they have done—but I believe their individual members are being led astray by radical propaganda prevailing here. I believe it is our sacred duty to fight that to the end.

Now, gentlemen, as an officer of the Association I bespeak your co-operation always with the Association. The Association is yours, its officers are merely your servants. Our success is measured by your co-operation entirely.

You will have before you, within the next day or two, several amendments to the constitution of deep import to the progress of the Association. It is absolutely essential, gentlemen, if you want to carry on the work of your Section, and the work of the Association as a whole, that we increase our income. The dues have been graded, we believe, in a fair and equitable manner; the smaller banks have been left as they were, at \$10. The rates are graduated up to the larger banks, who should pay proportionately the larger amount, and as chairman of your Finance Committee I bespeak your active support and consideration in the passage of that amendment to the Constitution. In doing so I certify to the effect that your Section shall have what it needs in the way of finance next year. (Applause.)

Now, further, gentlemen, that other amendment which is of deeper import to your Section is that on legislative action. I think that it is a good and democratic move. There are

several other amendments which are not of equal import, but are important and the Association should, I think, take cognizance of the recommendations of its Administrative Committee and its General Counsel.

In closing, I ask you to give careful thought to those subjects which may be presented to you during the Convention which have to do with the great problems of our period,—I have discarded the word "reconstruction" because I think that it applies to the devastated countries of Europe. But I do believe that we are in a period of reconciliation—reconciliation of all of the elements of economics in industry and to none is charged a greater duty in this hour than to the bankers of America. (Applause.)

## DISCUSSION ON TAX EXEMPTION MENACE

GEORGE L. RAMSEY

I come in a modest attitude in a very brief dissent on tax exemption. I readily appreciate, gentlemen, that naturally I am in what you call an unfriendly zone. The virtue which I shall tender to you in return for my temerity in thus addressing you will be the briefness of what I have to say. I can undertake very quickly to try and demonstrate the points in favor of the reasonableness of tax exemption in the United States.

First, there are in this country, in all the world for that matter, four great producers of raw materials; the woodsman, the miner, the fisherman, and the farmer. The greatest of these is the farmer.

The farmer needs tax exemption to enable him to borrow money cheaply and to keep the farmer on the farm—a subject in which you, as savings bankers interested in investments, are naturally interested. Keep the farmer on the farm and thereby we sustain the markets of the entire world. If he can borrow money cheaply, he can produce cheaply the things that go to make up the comforts and the happiness of human existence.

Now, when I say that is needed in order to keep the farmer on the farm, I say it because of the entire population of the far-famed corn belts of the United States, the entire population of that immense section of this country, was less in 1910, than it was in 1880. The population of the state of Iowa, the farm population of the state of Iowa, was less in 1910 than it was in 1900. In county after county in the state of Illinois, the farm population is less than it was in 1900. Take McDonald County for instance,—one of the richest, per-



haps the very garden spot of the whole state—in that county the population was less in 1910 than it was in 1870, although the cities of that county grew in population 150 per cent.

I come from Montana, a farming state that needs sadly the lowest rate of interest that it is possible for farmers to get—as does every other section for that matter. I have organized a joint stock land bank and I have done it because it is a pleasure to me to be able to lend money to those farmers at 6 per cent. where they had been paying 10 per cent., in some sections of our state even now they are paying 10, 9, and 8. The bank was organized equally for the profit of its promoters and for the good that it is doing the farming community of Montana.

Now, the dwellers in cities are able to borrow money at low rate upon municipal securities, for the simple reason that those municipal securities are tax free. When they build water works or sewers or boulevards or any of the many purposes for which cities borrow, they borrow at a low rate because the securities are tax free. If the dwellers in cities are to enjoy the tax freedom, why shouldn't the people who live on the farm? And when I say that the dwellers in cities enjoy tax free securities, I have only to call your attention to a thing that occupies my attention this morning in the newspaper.

There (indicating) is an advertisement of a St. Louis bond company advertising 100 different issues of municipal securities which are tax free, income tax free. As a matter of fact they are practically free from state and local taxation, even in the state of Ohio. The Lookland (Ohio) Street Improvement bonds are free in Ohio; Hamilton (Ohio) Sinking Fund; Piqua (Ohio) Refunding; Cincinnati (Ohio) Viaduct bonds—all such bonds are tax free, even in the state of Ohio—which is the only state which has made any attempt at all to put a state local tax on municipal bonds.

**A MEMBER:** Are they bearing their share of the burden of our war?

**MR. RAMSEY:** Well, they are free from Federal income tax.

Now, gentlemen, the basis upon which the farmers of this country ask for a tax free security, a device of tax exemption by which they can borrow cheaply is the theory of the greatest good for the greatest number. And that is the principle which Congress recognized when it passed the Federal Farm Loan Act and provided for tax free farm securities. They did it on exactly the same theory under which, after the War of the Rebellion, finding that when they came to make a national asset currency, and to do away with the state circulation and the "wild cat" currency of those days, and to base their currency upon the Government bonds of the United States—they found that the device to their surprise reduced the interest rate at which the govern-

ment could borrow money. When they found that to be the case they actually sought to drive all the state bank circulation out of existence, and they did it by putting a 10 per cent. tax upon state bank circulation; and you can't defend a 10 per cent. tax on state bank circulation by any manner of rhetoric or simile or argument or logic which you can bring to bear, except that of the greatest good for the greatest number.

They forced state bank circulation out of existence so there could be nothing in the way of a national asset currency, and yet you cannot defend the theory of taxing one class of banks as against another class of banks on the theory of the greatest good for the greatest number. It is upon that theory that we ask for a tax exempt security by which the farmer can borrow money at low rates. After the imposition of that law, there was five thousand times greater effort to bring about a repeal of the state bank tax than there has ever yet been made to repeal tax exemption in this country during the last year or so, and yet Congress paid no attention to it. They couldn't, because it was for the greatest good and for the greatest number, and therefore a public policy.

By the same token the Congress of the United States put a similar 10 per cent. tax on oleomargarine a number of years ago. There isn't a man alive (even Daniel Webster couldn't) who could frame an argument to defend a 10 per cent. tax on oleomargarine, merely in the abstract a manufactured article; there isn't an argument in favor of taxing one manufactured article against the other. No more reason why you should tax a brass bed than you should tax an iron bed, that you should tax oleomargarine and not tax butter. The dwellers in cities made a tremendous outburst and protest against it, as you all remember. They said they didn't want a tax of 10 per cent. on oleomargarine, that oleomargarine was used in place of butter—it was just as good as butter to cook with anyhow, and they didn't want a tax on it.

Regardless of the protest of our banking interests of this country, and the dwellers of the cities of this country, the 10 per cent. tax on oleomargarine was allowed to remain because it was for the protection of the farmer and to keep the farmer on the farm. But it is a matter, gentlemen, that we ask you to give serious thought to; please give friendly thought, if you can, to the honesty and the reasonableness and the harmony with the principles of this case for a tax free security on which the farmer can borrow money at a low rate.

#### EFFECT ON PRICE OF TAXABLE SECURITIES

The second point is very brief and it is this, that having tax free bonds does not affect the value or the price of securities in this country at all. It is this (showing an advertisement) list of bonds—this is

only one bond house or one set of income tax free bonds that affects the price of Government bonds, Liberty Loan bonds right now, is the great amount of liquidation going on among the small holders who bought them simply out of a spirit of patriotism at par and who are now selling them. These bonds fluctuated and will continue to fluctuate until they find their way into the hands of permanent holders. Until that time the price of the bonds will be below par.

This does not affect tax free bonds, by which the farmer can borrow money cheaply. It does not affect even the price of Government bonds for this reason: There is in this country today \$7,000,000,000 of municipal securities outstanding with \$2,000,000,000 being issued this year, of bonds which are tax free. There is in this country four billions of dollars of mutual savings banks securities which are free of Federal income tax. There are in this country one billion seven hundred million of building and loan association securities which are Federal income tax free. There are in this country four millions of the first to the fifth Liberty Loan, Federal income tax free. There are in this country a hundred million dollars of the stock of the Federal reserve banks, tax free. There are three hundred millions of tax free bonds of Federal land bank bonds.

Now, there is a total of \$16,100,000,000 and do you undertake to tell me that three hundred millions of the Federal land bank bonds can possibly affect the price of a total issue of \$16,000,000,000? That is in the ratio of about one to thirty-two. It can't affect the price of the total in any appreciable degree whatever, gentlemen.

The City of New York, which issues bonds which of course are free from Federal income tax and are free from all taxation, has a billion four hundred and fifty million of bonds outstanding. So far as people interested in the Federal land banks can determine, there will probably never be to exceed a billion dollars of loans made by the Federal land banks and the joint stock land banks. Now, if the total does not exceed a billion dollars, and I don't see how it can, because in this country there is only a total of four billions of farm mortgages outstanding altogether, and of that four billions the life insurance companies hold eight hundred millions and fully thirty to thirty-five per cent. of that four billions are mortgages simply passing between individuals—sale mortgages, bargain agreements, things of that sort, therefore, I don't see how they can ever profit any to the Federal Land Bank and Joint Stock Land Bank to exceed one billion dollars—and that is only two-thirds of the amount of the New York state banks alone. Gentlemen, I ask you, savings bankers in New York and savings bankers of the Middle West and Pacific Coast, from which will you get the greatest return, the Federal tax on four billions of credit in New York city or the mere million of tax free farmers' bonds?

If you should exempt from the Federal income tax law all interest,

all interest, you would only affect 4 per cent. of the income tax receipts of the United States Government. In other words, 32 per cent. of the income tax gathered by this country comes from corporations; 33 per cent. from personal taxes, 19 per cent. from excess on dividends, 12 per cent. from rents and royalties and 4 per cent. from interests; and on the question of interest, in analogy with the tax free farm bonds is exactly the same notch and same groove.

Under this law the United States Government money is loaned to joint stock land banks, who are private corporations, organized for profit, and they can never make any great profit from it. They can loan to the farmers at 6 per cent. but as banks they can never make any great profit for the reason that they are limited in the volume of their business to fifteen times their capital. When a joint stock bank has mortgaged to fifteen times the capital it will either cease business or increase the capital. The spread can never be more than 1 per cent. per annum, all expenses having to be paid and therefore the bank can't possibly make any greater spread than 15 per cent. When its total maximum is outstanding it makes a total gross of 15 per cent. plus 6 per cent. earning on its capital. Assuming that every dollar of its capital is invested, there is a total spread of 21 per cent. which the joint stock land bank can make, and out of which it has to pay all of its expenses, therefore the government, in providing a law by which the farmer may borrow money at a low rate, also hedges it about by restrictions and makes it as a profit-earner merely.

With those reasonable thoughts before you, I ask your fair consideration for the tax exemption as it applies to the borrowing farmer.

A farmer comes into an establishment; he borrows at  $5\frac{1}{2}$  per cent. from the government or 6 per cent. from the joint stock banks; he borrows a thousand dollars at 6 per cent. At the end of six months he pays \$35,000. This is very simple—no building loan association computations; there is no compound interest about it; there is no actuarial table; there is nothing except plain, simple 6 per cent. interest. For thirty-three years he pays 6 per cent. interest on that 1 per cent. per annum to apply on the principal. At the end of thirty-three years he has paid a note with thirty-three 1 per cent. payments—the prettiest thing in figures ever devised, gentlemen, and the thing that will help the farmers of this country to get some measure of independence, which they are getting now.

I lived up in the New England country close to the shores of Lake Champlain on the New York side, and I know the farmers and the damnable existence that they lived for years and years and the down-at-the-heel condition of the farmer and his family—which has been bettered to a large degree lately by high prices due to the war—but

which prices will recede when we again regain our equilibrium, as they resumed after the War of the Rebellion.

A farmer comes to you to borrow a thousand dollars at 6 per cent. and at the end of thirty-three years he has paid at the rate of \$5.00 per annum on the principal and the interest so that at the end of the first year there is due us \$95.00 and we charge 6 per cent. on \$995.00, and the next six months when he pays in the second \$30 we only get \$29.85, and he thus discharges the obligation. Gentlemen, it is too much for you to think of trying to take it away from the farmer of America. (Applause).

### DOES AGRICULTURE NEED SUBSIDY?

MR. BRACH: I would like to say just a few words in corroboration of some of the statements of the last speaker. He told us of the lessened production of the corn belt and of the farms of the Northwest, and I want to say that in New York State there has been a great movement from the country to the urban places to dwell.

If we should take a map of New York state and put a red-headed pin in every country town which had a less population than it had twenty years ago, when you got through our map would look like a strawberry bed in June. But that condition is going to right itself by the immutable, inexorable, unchangeable law of supply and demand.

Just a short illustration: Suppose there was a raft out in the middle of a lake and it was covered with people or partly covered with people. If all of those people moved to one side of the raft it would begin to tip, and just as soon as those who are next to the edge begin to get their feet wet, they would start for the other side and right the raft. Every man and every boy that has left a farm and gone to a city, has taken with him a body and a mouth that has to be fed, and in the city that body of his produces nothing to eat and just as soon as the time comes that there is not sufficient food coming off the farms to supply the people in the cities, the people in the cities are going to move back to the farm by the law of supply and demand.

The farmer doesn't need any special class legislation. (Applause).

MR. WELL: I come from the Central West and I believe I can make an explanation—I don't want you folks to think our farmers are all moving in town. I would like to ask the gentleman one question: Has our production in the West increased or decreased since 1880?

MR. RAMSEY: Increased.

MR. WELL: Increased. I will tell you why we can spare some of our farmers. I was raised on a farm. When I was raised on the farm we plowed with a 12-inch plow with one team of horses; now, one man plows with three to six horses, with from one to three plows—or you will find him with a tractor and he may have six plows. So that while our farmers may have reduced in number our acreage has not reduced. One man can do more now than he could do in 1881.

MR. J. F. HARDIN (Eldora, Ia.): The speaker from Montana mentioned the decrease in population in Iowa. Why the decrease in population? They got so rich they went out to California. (Applause.) The farming element of Iowa has decreased because they got so rich that they buy the adjoining farm. Our farms are increasing, instead of decreasing in size.

Now, the gentleman also says that it is on the theory of the greatest benefit to the greatest number. What proportion of the farmers of the United States will get the benefit of his tax exemption? About one farmer in a hundred. Is that the greatest good to the greatest number? Must the other 99 farmers pay the burden of our war debt in order that one farmer in a hundred, or owners of the Joint Stock Land Banks, can escape their share of the just burden of the greatest war for the greatest principle that ever existed in the world? (Applause.)

If it were a private individual that was seeking to avoid his share of the war debt, what would you call him? You would call him a slacker, wouldn't you? You would call him a slacker in Montana, the man who fails to come up, who didn't buy his share of the Liberty and Victory bonds. You would also call the man in Montana a slacker, who in some way, by hook or crook, whether by legislation or not by legislation, escapes paying his just share of the war debt.

Another point, the joint stock land bank men fail to tell

us that for thirty-three years they get one-sixth of all the interest that the farmer pays on the loan. Now, let's be square in this deal. Friends, I am afraid I can't be calm about this matter when I see the injustice of escaping taxation. Mr. Ramsay spoke about municipal bonds being exempt from tax. He says that prior to 1913 even they escaped paying their just share of the burden of the war debt. Since 1913 all those loans he quoted are paying their just proportion of the burden of our war.

**MR. RAMSAY:** Only bonds issued in Ohio.

**MR. HARDIN:** Now, another thing, a municipal bond helps every man, woman and child in that town, and therefore the municipality gets a reduction in the rate of interest. That reduces the taxes, and every man, woman and child, gets the benefit of it, instead of one in a hundred.

In my district last year the average asset of the farmer who made a Federal farm loan was \$14,000. Would you call that man a proper subject for charity? Must the Government go to work and extend aid to that poor, downtrodden farmer who is worth \$14,000 in order that he may escape the just share of paying the great war debts that you and I have to pay? Must he unload onto the ninety-nine farmers his share and escape scot-free, and not pay his share of the war debt?

More than that, I accuse the Federal Farm Loan Bank of openly violating the law by loaning the farmers in my state more than \$10,000—that is, a Federal farm loan and not joint stock land bank loan. The law expressly says you shall not, and yet they do repeatedly in our state. You can deed to your hired man a third interest in your farm, and to your wife another interest, and borrow \$28,000 as a man did in our county—when the Federal farm loan man came to our county to get the First National Bank to take it up the banker said, "Oh, you only loan \$10,000 to one man"; he said, "Never mind that, we get around that by letting him deed it to the hired man and then deed it back." The bank man said, "Hold on, we don't have to violate the law in order to do business in our community."

Why is it that the Liberty Loan is quoted at 94 and the

Federal Farm Loan at 102½ and sometimes 103, if there is not any distinction between the two?

The speaker said that by taxing the state bank currency 10 per cent. they knocked out all state banks from issuing currency. That is just what the Federal Farm Loan Bank is trying to do. It is trying to knock you—the savings banks, and life insurance companies, the widowed and the orphaned—out of that field of investment by exempting from taxes the bonds of the Federal Farm Loan Bank and the Joint Stock Land Bank.

I come back to the question, How can it be right? I don't care whether municipalities bonds are exempt or not; that that doesn't excuse the fact that the man who goes into this business, and who issues these bonds, tax-free—I can't get away from the fact that that man, I don't care whether he lives in Montana, or lives in Iowa, or lives in your state—the man who is not paying his share of the burden of the war is a— (Here the speaker closed his speech with a wave of the arm.) (Applause.)

PRESIDENT LERSNER: I realize it is getting late, and you gentlemen have given most earnest consideration to all the subjects brought before you but there is something that has just been brought to my attention, and it concerns itself with the thought I have of every American man, woman and child, and that is the solution of the tremendous problem of the successful co-operation of capital and labor.

The people who own this building and who are the operators of the electric light and power companies of this city, have an organization called the "Employees Mutual Benefit Association" which is said to give a practical solution to that important question, and the attorney for this association, Mr. John M. Ganz, is here, and would be very glad to give you a ten-minute talk on the practical function of this very big problem.

## THE EMPLOYEES' MUTUAL BENEFIT ASSOCIATION

JOHN M. GANZ

It was somewhat of a surprise to me to be requested to come up here to speak on this subject, especially to a group of bankers but we



are more or less in touch with the same people. We employ labor, and they take their earnings and they intrust them to you. You are their fiduciary in a way; we are their partners; and I think that in that word "partner" lies more or less the solution of labor question today.

The Union Electric Light and Power Company of St. Louis has arrived at a practical form of partnership with their employees, not suddenly but gradually. The solution of these questions does not flash out openly and suddenly upon the managers of a business enterprise. They have to agree to it. Now I can readily appreciate that from the arguments I have just heard, others appear from time to time, and you gradually adjust yourselves to these problems and you study over them until finally you see the solution. It has been that way with us in our relationship with our workers.

We have taken our workers into a practical form of partnership, and we grew into it. We did not plan this thing in its entirety like an architect draws the specifications of a house. We were all in a business, and as things came along we gradually strove to meet the problems of ourselves and of our employes, and out of that has grown the situation which we feel is in the very form of the plans in effect in this country today.

Our relationship with our employes started in 1912. We organized then the Employees Mutual Benefit Association. It was chiefly a welfare proposition. It was not a labor proposition. It was not a profit sharing proposition. It was merely to give the employes a collective idea of their family responsibilities and their personal responsibilities, and their property responsibilities.

We elected a board of directors; they elected officers. We took the employes in as members; they paid monthly dues; the company contributed an equal amount to what the employes contributed. That sounds simple. You have heard of that all over the country—employes loan and aid associations—but this is different.

After we had gone along that way for a while the employes began to realize the benefits they received out of this. When an employe died they saw his widow receive \$300.00 in cold cash in twenty-four hours. If one were sick, he drew his dollar a day right straight along during the time of his sickness. If one were sick and he didn't have a physician of his own, he could have the association physician. We now have a staff of five physicians and we furnish operations to the employes at a reduced cost. These physicians are scattered in different districts. When the employe applies to the physician of his district, he gets free medical attention for himself and his dependents under eighteen years of age. He also draws a dollar a day and if he dies his dependents get \$300.00. That's all for fifty cents a month.

That interested the employes. They finally became very loyal to

their Mutual Aid Association, because it secured practical results to them at a time when they most needed it.

Along with that was organized the Savings and Loan Association. Our employes had no loan or savings institution, but they were not interested until we started one among the employes—the Employees Savings and Loan Association, which after four years has about 1400 members. Out of that number 1071 have made loans to buy homes. (Applause).

We believe that we have the highest class of industrial workers in this town or any other town—but that is one of the reasons why we believe it. When a man has a home, when he is interested in building a home, he becomes a property owner, and he immediately begins to rise up and feel like a unit in the community, as a man should feel; he begins to appreciate property rights because he has property; he begins to get interested in questions of taxation and property protection, what the Police Court is for, and all those things that he is paying for, and he gets because he has property. I have been told by men who were there that all the troubles of Mexico are due to the fact that people down there have no property, and therefore they cannot respect property; that a man that knows nothing doesn't care about anything except the next meal, and he is going to get it anyway he can. So our men, 1,061 out of 1,400, have taken part in this Savings and Loan Association.

Then the Savings and Loan Association began to get interested in the higher welfare of their membership, not merely to have a doctor when they are sick, or a dollar a day, or \$300 death benefit, but of the items of labor and employment and they asked among themselves, Why can't we act as a union in the matter of making contracts for our employers; we all belong to this thing; why can't we all act together! And that is what they did. They proposed a labor contract with the company. The company was not averse to that idea because it was an opportunity to give these men an insight into the problems of management. It was a first step, so the company entered into a contract with the employes through the association whereby the employes agreed to furnish all the labor, all the help required for the running of this big organization. The company agreed to an eight hour day, to employ none but those furnished by the association, to adjust wages every six months on the basis of the Annalist's index number of the cost of living.

#### WAGE AGREEMENTS

Those men know now more about how wages should be scientifically calculated than they would have known in fifty years under the old plan, because they get together, analyze these things, ask a

million questions. These men know what the Annalist's index number is, and what it indicates—the fluctuation in the cost of living.

Immediately thereafter, when they had agreed to furnish the labor and had agreed to this plan of contract the men said, "Well, now, we want representatives to approach our department heads and our management to cure any grievances or complaints which we have," so they incorporated into their labor contracts, that every group of fifty men, whether it is a craft or whether it is a consolidation of groups, shall have the right to elect representatives to approach the department heads to make the semi-annual wage agreement solid, to make agreements relative to sanitary conditions and working conditions and safety conditions. They took over the safety work and conducted the appointments of the central safety committee, the safety sub-committees, in group or department of the company.

So the men now are looking out for their own safety, because having been led to think about property rights, and life, and physical conditions, and family loss and suffering, they are beginning to look out for themselves in a reasonable and logical and scientific way. And we are proud of those workmen, and for that reason that they have shown us that they are able to handle problems of management—and they don't stop there.

The next point was, Why shouldn't they have a man on the board of directors of the company through these labor adjustment committee men. So when a man has a grievance that is material he takes it to the labor adjustment committee, his labor adjustment committeeman takes it to his employe-member of the board of directors. Last spring the company, realizing that it was inevitably coming, that it was the proper way to teach the men the problems of management and to bring them in so that they could understand what the traffic work is, so that they would know whether or not they were reasonable or unreasonable, put an employee upon the board of directors of the company so he would know what was going on.

These men by ballot went all over the works, they campaigned like a political campaign for this man or that man or the other man; there were six or eight or ten candidates, and an engineer running an engine in the power station was elected a member of the board of directors of the Union Electric Light and Power company. He has been sitting there regularly in the meetings ever since. He is an intelligent and capable man, and he knows what is going on, and he knows the problems the management is up against. He goes out among the labor adjustment committeemen and those other committeemen and he tells them what is going on, and they know since they have come in contact with the labor adjustment committee, since they have a member elected to the board of directors, they don't speak of it as "the" company, they speak of it as "our" company. (Applause).

The next step after these adjustment committees were organized and started to making these semi-annual agreements with respect to wages, was to take them still further into the management of the company. I am really talking on co-operative management, because that is the solution of these difficulties. The men must know the problem that you have in order to be reasonable with you and to co-operate with you. So, the next step was to institute a profit sharing plan through these labor adjustment committees. The group committees—twenty-four of them—met in one big meeting, and they began to compare notes on the different contracts that the different groups had made with their department heads—they saw disparity, they saw some illogical differences, and they began to smooth those things over.

The result was that those men, of their own initiative, appointed a qualification and classification committee—something that I have never heard of before in America—to classify and rationalize the wages of the different groups, and they invited the company to appoint representatives on that committee for advisory purposes, which was done. That committee had been working six months and hasn't yet written a report, but it will come. It was something new, and it was a lot of work. But that report will come and it will help to smooth out any jealousies or any feeling of interference that may exist among the different groups of employees.

#### PROFIT SHARING

Then became evident the need for a reasonable and logical profit sharing plan. The ordinary profit sharing plan is to make a lot of money during the year, then when Christmas time comes and you see you have made a lot of money you get big-hearted and you dish out \$25 or \$50 in gold to your employees. I understand that is the system in lots of banks, but there is where—pardon me for saying so, I don't know whether you are guilty or not, or so generous or not—but there is no logic in that plan because it doesn't recognize the individual men. It is simply a case of having had a big, prosperous year and we are going to give everybody a Christmas present—and it is done.

Some industrial organizations do that, but that plan is faulty for two reasons; in the first place the man doesn't appreciate it so much; he feels that, well they have made an awful lot of money or they wouldn't give any away. He looks on it as a gift; and it prejudices the public because they think that if you can give these Christmas bonuses you are making too much money or else you are not paying your help enough to begin with. They think a bonus or profit sharing plan to be logical must be based upon merit and that is what the management of these companies, the Union Electric Light and Power Company and its consolidated companies, have been trying to do—to work out the logical plan that we want here.

To stimulate individual effort, we have taken groups of employees, for example the group of some thirty-five or forty boys who read the meters and deliver the bills to the homes. There is a certain standard of work, a certain level of production that that department has worked along for years. You set that standard as your base line and then after you got a profit sharing reward for results achieved above that line you stimulate endeavor in that group, in that department, and that is what has happened.

It has not happened that it stimulated a group as a whole, but it stimulated the group as an individual, because if there is an inefficient man in that department, some man who does not know where to cut the corners across the block when he is delivering the bills, some other man in that department is going to tell him about it and tell him that he is injuring the profit sharing of that group by not taking advantage of those efficient short cuts.

So those profit sharing plans are being put into effect, and they have been shown to do this: When your management has reached the highest point of efficiency, and you can't obtain anything more by efficient management, because you can only get so far in your details of the business, the rest of it from there must be left to the man who is doing the work down below; then when you have reached your limit, by efficient management, you can only get further not by just simply making the man work, at the work that you say ought to be done, but to make the man want to do that which he sees ought to be done. And that is exactly what these plans do.

The man wants to do the work that he sees ought to be done because he knows that when he does that, he will share in the excess profits over that old level standard which was taken as the base unit.

We haven't tried to do so much more for them as we have tried to do with them, to lead them to work with us, and that is what they have done. We have led them first to avoid personal and individual loss through sickness, and as much as possible through death. We have led them to personal advancement, through property holding and a realization of property values and of the meeting of municipal government, which comes from being a property holder, and from meeting the municipal government.

They have come to the realization of the meaning of corporate activities, and from that weld their selfish interest with their intellect. We have led them through as near a perfect co-operation of the management of this company as you will find anywhere through these labor adjustment committees, this collective bargaining, through this representation upon the board of directors and through the profit sharing plans. (Applause).

MR. KNOX: I would like to have a vote of thanks offered

Mr. Beebe, Mr. Thralls and Mr. Roberts; with that I would like to couple a hearty vote of thanks to Mr. Ganz for his very illuminating talk along the lines of a subject that every one of us is thinking about today. And personally, I do wish that it were possible for Mr. Ganz to appear before the whole body of the American Bankers Association and tell them the same thing that he has told us in such title as he agreed to give it in. With these three thousand bankers here now, every one of them should go home with an echo of that talk in his heart and spread that particular spirit abroad. That would be a practical thing to help our present labor situation.

**PRESIDENT LERSNER:** I would not attempt to ask for a second to that motion, but rather give you the opportunity to express those heartfelt feelings of gratitude to these gentlemen who addressed this session this afternoon. With that in view, I will ask you to indicate it by a rising vote.

(A rising vote was given amidst hearty applause).

**MR. SATTERLEE:** I would like to know if it is not possible for what Mr. Ganz has said to be reproduced in some form for the benefit of those now here and circulated among them.

**PRESIDENT LERSNER:** It will be circulated.

I want to call to your attention that our next meeting is tomorrow at 2 o'clock in the Shubert-Jefferson Theatre.

(Thereupon the session adjourned).

## SECOND SESSION

The meeting was called to order by President Lersner, Wednesday, Oct. 1, at 2 p. m.

**PRESIDENT LERSNER:** The first subject that we are going to touch upon today is going to be handled by Mr. George E. Roberts, vice-president of the National City Bank of New York. I think it is needless for me to refer in any biographical way to Mr. Roberts, but I venture that there is perhaps no more recognized practical economist in the country than Mr. Roberts. For some years he was Director of the Mint. Mr. Roberts has done much to lead the country in the matter of investments

for the savings bank. It is a great pleasure to introduce Mr. Roberts.

## FOREIGN TRADE AND FOREIGN EXCHANGES

GEORGE E. ROBERTS

It may seem at first thought to some that a discussion of foreign trade and foreign exchanges hardly belongs in a meeting of savings bankers, or bankers from the interior of the country, but the present situation is one which vitally affects all interests in the country. We all need to have a vivid close-up understanding of it as one that is not only serious to Europe but a menace to the prosperity of the United States.

We can remember when the war began, how far off it seemed. The people of this country looked on, shocked and reproachful that such things could be and we seemed so detached and remote that we scarcely thought of the possibility that we might be involved in it. But we learned that this world isn't big enough for the United States to be remote and detached from any situation in which fundamental public rights are at stake or the welfare of a large part of the world is involved.

That is just as true now that the war is over as it was during the war. It is as true as to economic and social conditions as of military affairs. I am not one who believes that it is possible for us to sign our name to the Peace Treaty, bring our soldiers home and pull all our boats to this side, and say that we will have nothing more to do with Europe. The world isn't big enough for us to be indifferent to the needs and calamities of Europe.

Almost a year has passed since the armistice was signed but progress toward the re-establishment of industry in Europe is slow. Mr. Hoover, than whom there is no better authority, in a carefully considered statement last month, said that production then was at a lower rate in Europe than when the armistice was signed, and nowhere near equal to the support of the population. Europe, with Russia in anarchy, is not self-sustaining, and Mr. Hoover said, further, that there was possibility of a loss of life, yet to occur, from starvation and exposure, greater than the loss of life in the war. He said that fifteen million persons were now being supported by unemployment doles from the several Governments, a situation which in itself is demoralizing and a menace to the social order.

In short the situation is more desperate than anything heretofore known to modern, highly organized, civilized life. The war was terrible, but in some respects the period after the war is worse. There is order and unity and co-operation and authority in war, and the modern

world cannot exist without organization and authority; but over much of Europe sanity seems to stand almost on the verge of dissolution.

In this country we are far better off. The war has touched us lightly; we have prospered through it and in spite of it. We are a richer people than when the war began, with greater productive capacity. Our wealth and productive capacity are from one-third to one-half that of the whole world. Our capacity for making steel and labor-saving machinery and industrial equipment of all kinds is equal to that of all the rest of the world combined. We scarcely appreciate our own relation to the industrial capabilities of the world. The fact is that figures outside of this country nearly all look small.

Before the war began our production of pig iron was four times that of Great Britain and it has increased more than hers since. I had luncheon recently with a gentleman of high position in Japan and in the course of the conversation I remarked that I supposed the steel industry had expanded in Japan during the war, as everywhere else. He said it had, that he thought it had doubled. I asked him what the steel capacity of Japan was at this time; how many millions of tons per year. He smiled and said, "Oh, it doesn't run into the millions. I think the present capacity is about 600,000 or 700,000 tons." When I got back to my desk I telephoned the library to know and learned that in 1916 the steel production of Japan was 250,000 tons. The steel-producing capacities of the United States is 48,000,000 tons or about 60 to one as compared with Japan. I think the chance that Japan will seek war with the United States is about in inverse ratio to that.

Not that I think that preponderance in steel production is the governing factor in our relations with Japan, although the figures ought to quiet the nerves of the most apprehensive. I only mention steel production to indicate the pre-eminent position of the United States in the industrial world. And that pre-eminence naturally carries obligations in our relations with the world.

We have what Europe needs to restore her industries. Nowhere else can it be had so quickly and it is needed quickly. Furthermore, we have the financial ability to give relief. We were a debtor nation before the war; we came out of it a creditor nation. We have bought back the American securities that were held in Europe at very low prices, by selling them war materials and foodstuff at very high prices, and they are heavily in debt to us besides. And the very fact that they sold back our securities during the war makes them more helpless now. They have denuded themselves of their quick assets, of the assets that would be available in this market. They have few goods to sell for they have not been making goods. Their industries are prostrate, their machinery in many instances broken or scattered, their factories without raw materials, their railroads crippled; their people short of



clothing and food. We tell them they must get to work. Of course, they must get to work, but it is slow getting to work without either tools or credit. And yet Europe, desperate as her situation is, is not unworthy of credit. The soil of Europe, the natural resources of Europe, the industrial properties and fixed wealth of Europe, and lastly, and greatest of all, the population of Europe—to sum it all up, the wealth-producing powers of Europe are abundant assets.

#### EUROPEAN WAR DEBTS

The population of Europe is an industrious and skillful population. They are a wealth-producing, thrifty people. Those countries are not bankrupt. There is a lot of foolish talk about their all being bankrupt. It is true their indebtedness is large but most of it is held by themselves and counts as assets as well as liabilities. No people ever went broke making payments to themselves.

I heard a distinguished man talking on this subject of the war debts a while ago. He was very pessimistic. He said that 500 years from now the people would be toiling to pay the interest on these debts. Well, I don't like to make prophecies upon what will occur 500 years from now, but I venture to say that if they are paying interest at that time, they won't be paying it to any of us. They will be paying it to people who are alive at that time. The payments will be going back into the same communities and largely to the same people who pay the taxes and that makes all the difference in the world. If the interest and principal of those debts had to be gathered up in products and burned, or if the payments had to be made to the people of another planet, it would be a very serious matter. But the mere transfer of wealth does not extinguish the capital transferred. These people are not bankrupt simply because they cannot pay on the nail. They are in the same position as the farmer who has lost his crop but still owns his farm. He has nothing to sell and he has to buy seed and live somehow until he can raise another crop. Every country banker knows that there is an obligation upon him to be liberal with credits at such a time. There isn't a country merchant who doesn't know that he is interested in carrying his customers through and in supplying them with what they need to make the next crop.

If you have a purchase to make, there are only three ways in which you can make payment. You can pay in cash, or trade something you have or you can give your note, which simply postpones the payment. Trade between countries is settled in the same way. Europe cannot pay in goods; she needs rather to import them. She cannot pay in gold, she has none to spare. We have lately received \$158,000,000 from Germany for food and I am sorry settlement was not managed in some other way for we don't need the gold and Germany does. She needs it as the basis of credit and of her industrial life. Germany and

the United States have been enemies but from the day Germany signed the peace treaty, I believe we have been interested in the restoration of stable and normal conditions there. We don't want any more gold from anywhere; it will inflate our credit and prices still further and we have inflation enough. The third means of settlement is by the use of credit and it is by that means alone that our export trade can go on. Before we entered the war we received more than a billion dollars of gold from Europe, but after this country became a belligerent, the United States Government began to make loans to the European governments to enable them to make purchases. An act authorizing those loans set \$10,000,000,000 as the limit and about \$9,650,000,000 have been made. These loans have supplied the means of payment for the great exports to Europe which have been going on in the last two years. But that lending power is nearly exhausted and when it is exhausted other means of supplying exchange must be found or exports will fall off.

In recent months the foreign governments have abandoned efforts to support the public market for exchange. The result has been that all the exchanges have declined heavily. Or to turn the situation around and view it from a foreign country, there is a high premium upon American exchange. It makes American goods cost more to all foreign buyers. New York exchange is at a premium in Paris of about 75 per cent., in Belgium about the same, in Italy nearly one hundred per cent. We think prices are high in this country but how can the French people afford to buy here, paying first, the prices that we know, second, an exchange rate of 75 per cent. and, finally, the abnormally high transportation charges. Italy is without coal, cotton, copper or oil; how can she do without them, and how can she buy them at such a cost? Coal is sold in Italy at over \$100 per ton. Before the war both Italy and France imported coal from Great Britain, but coal production has fallen off there until there is practically none to spare. America is the only resource.

#### CONDITION OF INDUSTRY

Cotton mills are idle today in Italy, France, Belgium, Germany, Poland, Bohemia and Austria, and the skilled operatives are idle and supported by unemployment doles, because they cannot finance the purchase of cotton and our supply of cotton is the largest in years and far beyond the capacity of our mills to work us. Our own consumption of cotton this year is running one million bales behind that of last year.

Gentlemen, there is something wrong with the management of affairs when such things can be. They are a challenge and reproach to the leadership of organized society, and being used as such by the conspirators who are trying to overturn the existing order.

A financial committee has been in this country for months from Czecho-Slovakia, trying to get a loan of \$25,000,000 or \$30,000,000 to be expended here for cotton and other raw materials. They have been able to get about \$5,000,000. There are commissions or representatives here from nearly every country on the continent upon the same mission, and I don't believe any American can hear their pathetic pleas without wishing every citizen of rich and prosperous America might hear them.

And we are interested in selling these products. I know there are people who argue that it would be better for us to have exports fall off, for then prices would fall, but there is another side to that. How much farther do you people here in the middle west want hogs and cattle to fall, and corn to fall, this year, and this coming winter? If we lose rapidly not only the foreign market, but one-fourth or one-half the purchasing power of our own farm population, what will be the effect upon our industries and upon employment? Isn't it possible that we may have something to think about more serious than high prices?

I want to see prices come down, but I think the best way of accomplishing it is by getting people back to work all over the world, and increasing production. That will be a gradual process and industry will adjust itself to it in all branches together and it will be a return to normal conditions. It isn't going to reduce the price of cotton cloth anywhere to keep the cotton mills of Europe idle. We never can get back to normal conditions in the markets until normal production is restored.

We have expanded our industries in many lines during the war and to supply this export trade and more exports cannot be suddenly cut off or reduced without feeling it.

Furthermore, do we realize how this exchange situation will finally work itself out if left to itself? It will have to find the national equilibrium. The foreign exchanges will have to fall and the premium on American exchange in foreign markets will have to rise, until our exports and imports come practically into balance. Do you realize that this premium upon American exchange is a premium upon exports to this country from all parts of the world?

Take our relations with Canada for example; a country separated from us by an imaginary line, and yet the Canadian who wants to make a purchase in this country must pay a premium of five per cent. to get an American draft. I was talking with a New York coffee jobber a few days ago; he said he was losing his Canadian trade. Canada in the past has imported most of its coffee through the United States, but it is going around the United States. They can't afford to pay the five per cent. exchange charge, and the jobbers are unable to absorb it.

On the other hand, the Canadian who exports anything to the United States can sell his American draft at a premium of five per cent. And it is the same everywhere, only more so. We are coming out of this situation on the peak of the world in costs. We can sell while we have no competitors, but as the world gradually resumes production the trade balance will turn against us.

Some people say that that is all right; let things take their natural course; but it seems to me that that policy fails to take account of the abnormal conditions which exist today; it fails to take account of the human suffering which exists in the world today. There are times when something more is wanted than the blind, unsympathetic workings of cold economic law. There are times when we want to reach out and ameliorate, assist and give intelligent direction to affairs, and this is one of those times.

We have, as I have said, become a creditor nation. It is a new position for us, but it involves certain obligations and responsibilities. A nation can no more hold a creditor position and not recognize those obligations than a bank can hold its deposits and recognize no obligation to make loans. What would you say of a rich man who in time of public calamity refused to use his wealth in any way, even for business purposes, for the relief of the situation? If we aspire to high position in international affairs, to leadership in world finances, we must have the vision and courage and public spirit to play the part.

#### POSITION AS CREDITOR NATION

We have come into this situation suddenly, as the result of the war. Great Britain and Germany grew into their great foreign trade gradually, as the result of their foreign investments. We are confronted now with the question, can we rise promptly to an appreciation of the situation? Can we develop a body of foreign investors? Can we lend, and lend and lend, continually to support and develop our foreign trade? Will our investment market take up the offerings that will have to be made here in order to hold the exchange situation level.

The fact is that we have brought our industries to such a stage of development, and developed our wealth so far beyond that of other countries, that in the very nature of things it is now to our interest to be a lending nation and help to bring forward the backward nations.

There is a morality in the economic law, or to put it differently, the economic law and the moral law are one. The fundamentals of universal law are never in conflict with each other. What is our duty to do, it is also our interest to do. It is to our interest to develop the resources and promote the prosperity of the whole world.

It is a common grievance against the labor organizations that they sometimes limit the output, acting upon the theory that there is only a limited amount of work to be done, and that it is to their interest

to make it go as far and pay as much in wages as possible. Every such conception of industry and trade is fundamentally wrong, because there is no limit to the amount of work to be done or the amount of wealth to be created from the resources of nature, or to the consumptive demands of the world's population.

There is an obligation upon us to assist in restoring industrial order in the devastated countries of Europe, to put these people back into their homes and workshops, to supply them with the means of becoming self-supporting and prosperous again, and it is to our interest to do so, because it will furnish employment to our industries.

Some people speak hopelessly about our ever recovering the amount of our loans to Europe. I do not feel so at all, but I think it is to our interest not to attempt to collect either principal or interest for some years to come. If the foreign governments were to attempt under any such conditions as exist at present, to gather up exchange to pay the interest, it would send American exchange to a still higher premium and cut off our exports.

On the other hand, there are a few people who say that we ought to forgive and cancel the obligations which the United States Government holds, but I do not think there is any occasion to do that. What we ought to do is to add the interest to the principal until these countries have recovered from the war, and lend them what further help we can to restore and increase their production capacity. If we do that these debts will be of constantly diminishing importance. If development in industry is as great in the next thirty years as in the last thirty, these debts will be of relative small importance. The indebtedness of England at the close of the war with Napoleon was greater in proportion to the wealth of the country than their indebtedness of today, and she never did pay off that old debt but by the development of the steam engine, by the improvements of her industries, she so increased her productive capacity that she was able to supply capital in the form of equipment for the building of railroads in America, and for opening up other parts of the world, with the result that she opened up great markets and at the same time secured cheaper food for her people, and created the greatest era of prosperity ever known to England.

Thomas Huxley said that all the cost to France of the disastrous Franco-German war of 1870, including the billion dollar indemnity, was more than offset by the benefits to French agriculture resulting from the scientific discoveries of one Frenchman, Louis Pasteur. And so I expect these debts to be paid, not by grinding the faces of the people, not by taxation that will lower their productive powers, but by increasing the productive capacities of the people.

I believe that before many years it will be possible to refund all these foreign debts in the open American market, so that they will

be held by individual investors of all nations, and no longer be a matter of public concern.

I have made these remarks without reference to any movement now pending to provide credits. No organized movement is now pending. Possibly some effort for a nation-wide movement may be made after the Peace Treaty is disposed of. The New York bankers will be glad to co-operate and do their full part, but they are not going to put forward any proposition that can be misrepresented as a New York movement.

**PRESIDENT LERSNER:** Mr. Samuel H. Beach, of Rome, N. Y., president of the Savings Banks Association of the State of New York, will discuss the question of the purchasing of foreign securities by Savings Banks.

## FOREIGN SECURITIES AS SAVINGS INVESTMENTS

SAMUEL H. BEACH

To discuss this question of the absorption of power of securities from a proper viewpoint, we must first get thoroughly established in our minds, the answer to the question, "What is money?"

If a man were shipwrecked and cast upon an uninhabited island and the same wave which bore him ashore should cast up beside him a chest filled with Bank of England notes or packages of our own twenty dollar yellowbacks, almost his first exclamation would be, "Oh, if I could only exchange all this worthless stuff for an ax and a few matches." And the definition of money would dawn upon him probably for the first time right then and there. Money is the medium of exchange. Whatever performs this function, does this work, is money, no matter how it came to be a medium of exchange. Iron, copper and lead, have all at various times and places served as money.

The North American Indian managed to get along by utilizing the much despised clam because clamshells furnished the raw material from which wampum was made, and wampum was good money because in the Indians' eyes it was valuable for ornament, and it took many hours of hard hand labor to convert the thick end of a clam shell into a wampum bead. The Pilgrim Fathers took it for fire water and exchanged it for furs. Everything went along harmoniously until a Connecticut man abolished the hard shell clam for all time by turning out wampum by machinery and thereby knocking the value of the hand made article over night, and this has happened to all the substances of metal which were occasionally used for money. Each one of them developed certain limitations and objections until by a process

of elimination gold has become the recognized standard of value of the chief civilized nations of this earth.

It is the consensus of opinion that a gold dollar is worth a dollar because it takes one dollar's worth of labor to produce a dollar's worth of gold, because the intrinsic value of a gold dollar does not depend upon the words nor the figures which are stamped in bold relief upon its two sides. It consists of the grains of gold in it, and the little globule of metal will still be worth one hundred cents.

The world's gold supply has increased at about the rate of a million and a half dollars a day in normal times. That is to say, over twenty-four hours, three hundred and sixty-five days of the year there is dug from the earth one million five hundred thousand dollars worth of gold and added to the visible supply this increase in the production of gold just about keeps pace with the world's added requirements. We are now pretty well assured that gold for many years to come will be the recognized standard, because it forms the recognized base upon which the great structure of credit, both national and commercial, is reared. While gold has increased somewhat in the past years, all the war credits have been added one upon the other, until the structure has become topheavy. In fact, so small is the gold base of some of the nations of the earth in proportion to their towering obligations, that their credit structures have become veritable leaning towers of Pisa.

Only by the most careful thought, the utmost vigilance and the exercise of the highest type of statesmanship can these leaning towers again be brought to an upright position.

#### FROM DEBTOR TO CREDITOR NATION

For many years, the United States was a debtor nation. We were a new country. Our people were busy in building industrial cities, improving many acres of farms, practically pigironing our country with railroads and had not accumulated a sufficient amount in savings to finance these great undertakings. The large proportions of these obligations, the government bonds, industrial bonds, municipal bonds, and railroad bonds issued for this purpose were bought and held abroad for investment for people who had accumulated money in the older nations of Europe. When the great storm of war burst with a suddenness that alarmed every nation on the earth but one, these people who held these securities abroad suddenly found themselves called upon to buy bonds issued by their own nations so that they might prosecute the war, and that block of foreign held securities was suddenly sold, and they were very largely absorbed by American investors. If England and France and Russia had been prepared for war, or if they had had sufficient natural resources, or if their manufacturing or their manufacturing interests had been well enough developed so

that they had been independent, the sudden throwing upon the market of those securities would have made a great depletion in our gold supply. But so sudden, so continuous and so dire was the need of all of these nations for all kinds of munitions of war that they came to us appealing, each one vying with all to raise prices. In the years of 1915, 1916 and the early part of 1917, so continuous was this demand, so large the flow and so great the volume of money coming our way, that we not only absorbed upwards of three billions of our securities, but we added 65 per cent. to the gold supply of this nation (one billion two hundred millions of dollars) and the world found us no longer a debtor but a creditor nation, with the balance of trade by a wide margin in our favor.

The writer on "exchange" in the Encyclopedia Britannica calmly states the value of an English pound sterling is \$4.86% in American money, but owing to the cost of transporting gold to and from or across the ocean, the cable exchange varies from \$4.86 to \$4.895; that at the former price gold leaves London for New York and at the latter price gold floats back to London. The writer of that article probably never even dreamed that the cable exchange rate on an English pound sterling would ever drop to \$4.13¼ and still no gold leaves London, because he, in common with all the rest of us probably never conceived that England would have such great obligations that she would have to beg the question, and finally decide whether to send the gold to her colonies and thereby prevent her merchants from buying goods in the United States, owing to the prohibited rate of exchange which was sure to follow, or to send enough to the United States to bring the cable exchange up to par and thereby cause her colonies to suffer.

That is the condition which obtains today in England, and in a like measure obtains in France and Italy, because on the same day that the English exchange dropped to \$4.12¼, the exchange on the French franc normally 19.3c, dropped to 12.1c, and the Italian lire normally worth the same as the franc dropped to 10.1c. It is the most natural thing in the world that these nations should endeavor to increase their great debt to us just as little as possible by buying here only those things which they cannot buy of their colonies or from the nations which owe them money.

#### INVESTMENTS IN FOREIGN CREDITS

If we expect to continue to receive the credit balance or trade from these nations, we must provide for them a credit here by purchasing liberally of such obligations as they may see fit to issue. And when I say we must buy these obligations, I mean that they must be bought by our great manufacturing plants, by our men of large means, by commercial banks and trust companies, by the producers of cereals, by the producers and dealers in pork and beef and hides and



the growers of cotton, because each and every one of these corporations and individuals will directly profit by the great flow of trade which would follow such bond absorption.

I do not mean that I favor changing the state laws so that savings banks deposits or trust bonds may be invested in foreign securities. The past five years have taught us that the bonds issued by foreign nations or a great municipality are just as liable to fluctuation in price, only to a lesser degree, than are those of industrial or railroad bonds.

When in April, 1918, Von Hindenburg's seemingly invincible legions were threatening the channel ports, and the long distance gun was actually shelling the city of Paris, Anglo-French 5 per cent. bonds were selling at 90 and the obligations of the city of Paris could be bought to net the investor 14 per cent. The people who bought the bonds at that time at those seemingly low prices, did so on account of the interest they had, but they nevertheless took a chance, for had Von Ludendorff and Von Hindenburg been successful, the Anglo-French bonds would have been subjected to German indemnity bonds and the wonderful city of Paris, her architecture, her arches, her streets, her homes, and everything which gave value to her bonds might have been damaged beyond repair, or the city left only a series of shell holes.

Taking all these things into consideration, I cannot bring myself to believe that trust funds should be invested in securities which are beyond our control and which are out of the jurisdiction of our own ports. (Applause).

**PRESIDENT LERSNER:** There is probably no more able railroad lawyer in the country than Mr. Luther M. Walter, counsel for the National Association of Owners of Railroad Securities. He has represented the shippers in railroad controversies and his able argument recently before the committees of Congress which are investigating the railroad situation expresses the authoritative part Mr. Walter is taking in the solution of the railroad problems. It is a pleasure to introduce Mr. Walter. (Applause).

## THE RAILROAD PROBLEM

### LUTHER M. WALTER

I would present to you for your earnest study and consideration, some facts which are of great moment in the railroad and industrial life of the nation. We are just emerging from the stress of a great world war. The minds of our people have been occupied with considera-

tion of problems connected with that war. The release of our four million young men from arms, and the turning of our industries from war-time production to peace-time production, is proceeding with great rapidity. There are, however, many men who are dissatisfied with things as they are, and who are endeavoring in every way possible to overthrow existing institutions, and our methods of doing business, and are seeking to substitute theories either imported from chaotic European society or created in the unbalanced mind of a few of our dissatisfied people.

The first and foremost problem is the settlement of the transportation question. What is to be done with our railroads?

For the time being I am one of general counsel of the National Association of Owners of Railroad Securities and have been for several months past working upon the problem under the direction of the president of the association, Mr. S. Davies Warfield, of Baltimore, who has evolved a plan of regulation which has come to be generally known as the Warfield Plan, and to which I shall hereafter refer by that name.

The National Association of Owners of Railroad Securities is a voluntary organization made up of holders of railroad securities, both stocks and bonds, the latter predominating. Through its membership, directly and indirectly, by institutional and individual membership, the association now represents nearly nine billions of dollars in actual paid up membership of the outstanding nineteen billions of unduplicated railroad securities.

The largest single holders are the great life insurance companies, savings banks, universities and colleges, banks and individual investors. Approximately 30,000,000 people own the outstanding six million life insurance policies; one-fourth of the investments made by these companies to protect the beneficiaries of their policyholders is in railroad securities. You gentlemen have paid to the great life insurance companies of the country your annual premium on various forms of life insurance policies, believing that your estates, your dependents, will be better protected by that form of investment perhaps than many other kinds. The premiums you have paid have been invested by the life insurance companies to protect your beneficiaries, in investments of many types. You can, therefore, easily see how important it is that our Government should exercise every care to protect the integrity of investments in railroad securities. The great savings banks are members of our Association and they have some nine million depositors their deposits have largely been invested in railroad securities. You therefore find that the great mass of our people are vitally interested in the integrity of railroad securities, and for them this Association appeared before Congress and presented its views.

The purpose of this Association is to secure from public authority such action as will protect the investments already made and make it

possible for capital to be furnished to the railroads for future needs. The financial structure of all credit depends upon the results of legislation by this Congress upon the railroad question. We believe that capital invested in railroad properties is entitled to a fair return, that labor employed upon these properties is entitled to a just wage, and that the public which furnishes the money for wages, for other operating expenses, and for return upon the capital invested is entitled to efficient service at the lowest cost which will make such provision.

#### RELATION OF RAILROAD PROBLEM TO INDUSTRY

At the outset I desire you to understand that this Association in its membership includes investors not alone in railroad properties, but in all of the industries, in properties of whatsoever kind throughout the United States. Plans have been submitted to Congress with the great force of organized railroad employes demanding the nationalization or socialization of railroad properties with a statement that this is but the entering wedge and when the railroad properties be so disposed of there will be an advance all along the line in the great industries in an effort to take them from their present owners and nationalize them for the benefit of their employes. The press in the last few days has carried information that the United Mine Workers of America have endorsed and propose to throw all their influence in support of the Plumb Plan, as well as for the nationalization of mines.

Briefly, the plan presented by Mr. Plumb, with the express approval of all the fourteen railroad organizations and of the American Federation of Labor, provides that the national Government shall purchase the railroads of the country at what he asserts is a fair value, viz.: ten to twelve billions of dollars, although the investment, as shown by the books of the carriers, in the aggregate exceeds nineteen billion dollars, with outstanding unduplicated securities of approximately the same amount. From the freight rates and passenger rates collected from the public there will be set aside as a sinking fund one per cent. upon the amount of Government bonds outstanding to amortize the Government indebtedness, which it is asserted will occur within fifty years, after which time there will be no interest charge to pay upon these properties. At the time the Government buys these properties, all of the employes and officials of the railways, from president down to waterboy, would become members of a private corporation to which the Government would lease these railroad properties. The management would be vested in fifteen men, five appointed by the President of the United States, five selected by the classified employes of the railways, and five selected by the remaining officials, being generally men above the rank of dispatcher and superintendent. After wages and other operating expenses have been paid, as well as fixed

charges, the private corporation would divide the net earnings equally with the Government. The half accruing to the private corporation would be divided between the classified employees and the managing officials, the latter receiving twice the rate of dividend accorded to the classified employees.

Such, briefly, is the Plumb Plan. It is appallingly simple. The Government simply presents to the employees of the railways of the country all of the railway property in the United States and compels shippers and traveling public to pay not only the cost of operation, but to set aside annually a sufficient amount to retire the Government bonds which have been issued in payment for the railroads. Perhaps you gentlemen would better understand what this proposition means if you considered what it would mean if the United States Government were to buy all of the steel mills of the country, all the mines of the country, all of the great manufacturing industries, even the farms of the country, and turn them over to those who are now laboring within and upon them, without cost to those employees. Mr. Plumb proposes to try out this theory first upon the railroads. But I think he mistakes the temper of the American people, and particularly of the American workingman, if he believes that they are willing to see the railroads of the country presented as a gift to the two million men who are now employed upon them, at the highest wages and with the best working conditions ever enjoyed by any set of employees in the world. Do you think there will even be any money to divide between the employees and the Government? Will not wages and salaries always use up the total amount of earnings left after paying other operating expenses? With ten representatives of the management and employees of the railways on the board of management, out of fifteen, how else could it be?

#### RAILWAY NATIONALIZATION

When members of the House Committee on Interstate Commerce asked Mr. Plumb and the heads of the organizations what they would do if Congress failed to adopt the Plumb Plan, they stated they "would appeal to the protective measures of their organizations and would go to the people to elect a Congress and a President which would adopt the Plumb Plan." You may, therefore, expect men to be nominated for Congress next year, who will espouse the Plumb Plan in order to secure political support. I think you might well say to your members in Congress to stand steadfast by the principles of our Government, the principles upon which our industries have grown to be the greatest in the world, and to be undisturbed by the clamor of an organized minority which supports a proposition it does not understand. When the sober intelligent thought of our voters fully appreciate what the Plumb Plan proposes, it will be rejected finally

and overwhelmingly. I believe the members of Congress will stand steadfast, but it will be a source of encouragement to them to know that their people at home support them in the course they have adopted.

The shippers of this country are the owners of producing and manufacturing plants. Their investments in farms, mills, mines, factories, represent the capital of the United States, and have given and are giving employment to millions of our workers. Their success, their ability to continue operations, measures the ability and opportunities of all our working people. With labor the best paid, best clothed, best housed, best educated, best entertained, it has ever been in the entire history of the world, you have little need for concern at any threats which may be presented in an effort to compel Congress to abandon its fixed principles in perfecting legislation.

### THE FEDERAL RAILROAD ADMINISTRATION

The National Association of Owners of Railroad Securities has presented a bill which embodies and effectuates the views of that association. Before beginning a discussion of our bill, I desire briefly to comment upon certain facts and principles which are undeniable and controlling. The President took possession and assumed control of the railroad transportation systems of this country in the closing days of 1917, solely for war purposes. The war having ended, the President has announced his intention to return these properties to their owners on December 31st next. The results of operation by the Railroad Administration show a financial loss to the Government during the calendar year 1918 of about \$250,000,000, and during the first six months of 1919 of approximately \$300,000,000. This loss in all probability will continue, so that by the end of 1919 it will probably be found that the aggregate financial cost to the Government in operating our railroad systems will approximate one billion dollars. This loss the Government cannot possibly recover. The service given the public has been less efficient and more expensive. I believe the public is cured of any possible desire it may have had for Government ownership. The return of the railroads to their owners must be accomplished with the least possible disturbance to financial and operating conditions.

The total rental which the Government is to pay for the use of the railroads is the average net income from each railroad under Federal control during the three-year period ending June 30, 1917, and aggregates \$950,000,000. During the first six months of 1919 the Railroad Administration earned net only 39.8 per cent of the rental which it is compelled to pay. During the first six months of 1918 the net earnings was only 38.4 per cent. of the rental. There is, therefore, only 1.4 per cent. increase in the earnings for the first six months of this year as compared with the first six months of 1918. Class 1 railroads of the United States are those having annual gross revenues of more

than one million dollars. They comprise ninety-seven per cent of the total railroad mileage, and handle ninety-seven per cent. of the total railroad business of the United States. During the first seven months of 1918 the net operating income of Class 1 railroads approximated \$233,000,000, as against \$288,000,000 for the first six months of 1918; during 1919 railroad rates were about 25 per cent. on freight traffic and 50 per cent. on passenger traffic greater than in the first half of 1918. The Director General earned net \$54,000,000 less during the first seven months of 1919 than was earned in the first seven months of 1918, operating expenses having increased 14.6 per cent., while operating revenues increased only 10 per cent. The number of loaded car miles, loading per car and number of loaded cars in a train, was less during the first seven months of 1919 than during the same period of 1918. In other words, efficiency of operation was less during 1919 than for a comparable period of 1918. During the first six months of 1919, the Baltimore & Ohio Railroad failed by \$4,000,000 to earn its operating expenses.

The Director General is now considering demands for increases in wages of more than \$800,000,000 annually. Without any further increase in wages, and with a continuance of the present rates and operating expenses, many of the railroads would be unable to pay their out-of-pocket operating expenses, if their properties were returned to them for operation. It is, therefore, urgently necessary that Congress legislate for the protection of these properties. The President has said that he will return them on December 31st of this year.

Many of the plans presented to Congress and yet to be presented, call for the adoption of new and untried experiments destructive of corporate organizations, requiring the creation of new and larger corporations with forced mergers of hitherto independent competing railroads, all of which requires indefinite delay. No other plan, complete in itself, for railroad legislation has yet been presented to Congress which does not require great delay. Whatever is done should be done quickly. Revenues of the carriers must produce ample funds to pay operating expenses and a reasonable return upon the fair value of the property devoted to the public use.

#### THE SECURITY OWNERS' PLAN

The keystone of the Warfield plan is a Congressional direction to the Interstate Commerce Commission that it shall make freight and passenger rates sufficient to pay operating expenses, maintain the properties and give not less than a 6 per cent. return upon the aggregate fair value of the property devoted to transportation in each of the principal traffic territories. The chief difficulty in the past has been the impossibility of adjusting rates so that the great bulk of the railroads of the country could earn sufficient to operate and main-

tain their individual properties without at the same time furnishing excessive earnings to a few great carriers. Under the Warfield plan there is no direction to the commission to adjust rates so that each carrier will have net earnings of 6 per cent. All that Congress is asked to do is to say to the Interstate Commerce Commission, "prescribe rates which will keep the earnings of the carriers up to a level which, treating all the railroads of the country as a single system, produces 6 per cent. upon the combined investment of all the railroads. Some of the railroads will earn more than six per cent. others will earn two per cent., four per cent., or six per cent. Each carrier will be free to earn as much of the revenue which is produced by this level of rates as its management can secure.

It will be a year or a few years until the fair value of the individual carriers' properties is determined. Pending such determination as a temporary base, we suggest the combined property investment accounts of the carriers. Since July 1, 1907, these accounts have been kept in accordance with accounting requirements of the commission. At the end of the fiscal year ending June 30, 1907, the aggregate property investment account in road and equipment of the carriers was \$13,000,000,000; on December 31, 1917, the total investment in road and equipment had reached more than \$19,000,000,000. It will thus be apparent that since the date the commission prescribed rules for keeping these accounts, nearly 50 per cent. has been added to the accounts as they existed in 1907, and that addition was in cash. The Interstate Commerce Commission itself has in several cases used the investment account for the very purposes for which we are here suggesting its use, viz., to determine the sufficiency of the railway operating income of the carriers. In the opinion of the Interstate Commerce Commission in the Five Per Cent. Case, decided July 29, 1914, the Commission had before it on its own investigation a proceeding of the inquiry presenting two questions:

1. Do the present rates of transportation yield to common carriers by railroad operating in Official Classification Territory adequate revenues?
2. If not, what general course may carriers pursue to meet the situation?

The opinion in that case will be found in Vol. 31, Interstate Commerce Commission Reports, page 351.

The Interstate Commerce Commission in that case carefully reviewed all the facts and reached the conclusion that the only available basis on which it could determine whether the net operating income of the carriers was sufficient was the property investment accounts of the carriers. The Commission pointed out that it was just beginning the valuation of the railway properties and that it would be several years before that work was finished. It reached the conclusion that

the practical necessity of the situation would not permit it to defer action until such a valuation had been completed. The Commission accepted the property investment accounts of the carriers and reached the conclusion that since the net operating income had been on the average, during the period from 1900 to 1914 only 5.64 per cent. on the combined property investment account, the carriers were entitled to an increase in revenue. Just as the Commission was confronted with an emergency and was compelled to accept the property investment account of the carriers as the basis, just so today Congress is confronted with an emergency in railroad finance and operation, and should accept the property investment account as the basis. There is nothing else it can accept.

Having demonstrated the correctness, as I believe, of the property investment account as the basis, it becomes necessary to discuss the facts in support of 6 per cent. as a proper rate of return. In the Federal reserve act Congress itself fixed 6 per cent. as the rate of dividend to be paid upon the capital invested. The Supreme Court of the United States, in its last term, held in the Lincoln Gas case, that 6 per cent. was the minimum return consonant with the provisions of the Federal Constitution forbidding the taking of property without just compensation. In your every day walks of life you gentlemen know that 6 per cent. is the minimum rate of return which Congress should require upon railway investment. That is the minimum which is current in your every day dealings. There can certainly be no criticism in fixing 6 per cent. as the rate of return.

#### PUBLIC DISTRIBUTION OF EXCESS EARNINGS

We come now to the next most important phase of the Warfield plan, viz.: the regulation of earnings in excess of 6 per cent. upon the property actually devoted to the public use. We have called your attention to the fact that one of the great difficulties has been the adjustment of the rate structure so that the great bulk of the roads would have sufficient revenue without at the same time giving excessive earnings to the stronger roads. The weak and the strong roads operate in the same territory. The rate which is applicable on one must be applicable upon the other, else the road with the lower rate would carry all the tonnage, and the road with the higher rate would find itself without tonnage. Having in mind the fundamental, long established rule that an investment in a public utility such as a railroad is entitled only to a fair return, there can be no constitutional inhibition upon Congress fixing a maximum return. There should, however, be accorded to a carrier a portion of the earnings in excess of the maximum reasonable return so that the incentive to economy and efficiency in operation should not be lost. We believe that one-third of the excess over 6 per cent. is sufficient to encourage incentive and



initiative in operation; that the carrier will be anxious to make the additional dollar in order that it may have the 33 1/3 cents for its own treasury. The other two-thirds of the excess should be divided equally between labor and the public which has paid the money.

Thus we have what we regard as the ideal relation between capital, which has made the investment; labor, which has performed the service; and the public, which has paid labor and capital for its services. The application of this principal will not reduce the usual and customary dividends of the carriers. Had the system been in effect during the test period of three years, ending June 30, 1917, there would have been, on all railroads of the United States, combined excess earnings of \$126,000,000. The corporations that earned in excess of 6 per cent. would have received one-third, \$42,000,000; there would have been left to divide between labor and the public some \$84,000,000. During that three-year period, had the Warfield plan been in effect, every customary dividend could have been paid. The only effect would have been to reduce the corporate surplus of carriers to whose earnings the plan applied. The result of the Warfield plan on a few of the great railroads of the country, if that plan had been in effect during the three years ending June 30, 1917, is shown in the following figures:

#### INCREASE IN NET OPERATING INCOME OVER THREE-YEAR PERIOD

Railroad	
Pennsylvania R. R.....	\$6,201,766
Southern Pacific System .....	6,310,177
Baltimore & Ohio.....	4,060,325
Chicago, Milwaukee & St. Paul.....	4,859,065
Chicago, Rock Island & Pacific.....	3,582,112
Missouri Pacific.....	3,493,438
New York Central.....	1,504,677
Atchison, Topeka & Santa Fe.....	1,471,167
Lehigh Valley.....	1,285,913
Chesapeake & Ohio.....	1,143,452
Chicago & Northwestern.....	1,079,773
Atlantic Coast Line.....	679,401
Central of Georgia.....	431,804
Northern Pacific.....	347,457

In addition to the increased net operating income shown above these roads would have contributed \$21,651,376 to the fund provided by the plan through the regulation of excess earnings.

The following are illustrative instances of roads which would contribute a portion of their excess earnings for division under the plan, showing their unimpaired ability to pay customary dividends and to accumulate substantial surpluses:

**SURPLUS LEFT UNDER THE PLAN AFTER PAYING CUSTOMARY DIVIDENDS**

<b>Railroad</b>	
Chicago, Burlington & Quincy.....	\$17,368,812
Delaware, Lackawanna & Western.....	5,883,556
Delaware & Hudson.....	1,637,453
Norfolk & Western.....	5,634,776
Union Pacific System.....	15,471,355
	<hr/>
	\$41,886,462

In addition to the surpluses indicated above these roads would, under the plan, have contributed \$22,470,158 to the excess earnings fund, still leaving them \$41,800,402 surplus. This sufficiently answers the charge of confiscation.

One hundred and nine railroads which would not earn 6 per cent. (their average being 4.61 per cent.) under the operation of the plan would nevertheless have received \$57,894,375 net operating income more than their average for the three-year period. These 100 railroads constitute the so-called less favorably situated roads. They are the roads operating a majority of the mileage of the United States whose necessity for additional revenue makes obligatory a rate level higher than required for the more favorably situated roads. It is obvious that the former can never secure this relief without regulation of excess earnings of those carriers whose surplus would be largely increased.

It is equally obvious that regulation of excess earnings will in no respect impair the credit or financial status of those other roads whose excess earnings would be regulated.

**STABILIZING RAILROAD CREDIT**

The great purpose and the practical effect of the Warfield plan in the two phases which I have just discussed, would be to stabilize railroad credit. Members of our association, constituting the large investors as well as the small, have assured us that with this system in effect the railroads of the country will be able to secure all the capital which they need to expand and develop their properties and to give the public the service to which it is entitled.

Three weeks ago Mr. Warfield, as president of the association, presented to the Congress a memorial signed by many of the institutions represented by you gentlemen here today, expressing profound concern lest remedial legislation by Congress should fail to reach the heart of the railroad problem. In that memorial Congress was urged to fix the minimum return to the railroads in the aggregate at 6 per cent. That memorial expressed to the Congress the firm conviction that a reasonable proportion of the earnings beyond the primary return of 6 per cent. should be retained by the railroad earning it as an incentive

to efficiency and improvement in service, the balance to be disposed of in the public interest. Congress at the same time would thus provide against the retention of excessive earnings by the more favorably situated roads. The memorial was signed by industries and investing institutions representing twenty-seven billion of the outstanding forty-seven billion of the total investing resources of the United States, inclusive of international banking houses, private banking houses and private banks, investment banks and brokers and traders in securities; thus 57 per cent. of the total investing resources signed that memorial. The signatures included the great savings banks, life insurance companies, fire, marine and surety companies, national and State banks and trust companies. In fifty-six of the largest cities of the country the signers of the memorial represented resources of nineteen billion out of the total of twenty-seven billion, or 70 per cent. of the total investing resources of those fifty-six cities.

Approximately five thousand institutions have signed the memorial; through fiduciary institutions, such as estates, and individual investors have signed to the number of more than eight thousand. Business organizations, such as boards of trade, chambers of commerce and business firms have signed to the number of more than sixteen hundred. The savings banks signing this memorial have depositors numbering more than five and a half million of the nine million total depositors in the mutual savings banks of the country. The number of policy holders represented by the life insurance companies in unduplicated policies signing the memorial is twenty-three million of the thirty-three million outstanding unduplicated life insurance policies. The signers of the memorial are located in nearly twenty-five hundred cities, towns and communities of the United States. Congress probably has never had presented to it a more important representation from the investing public of the United States. Is it possible that the Congress will not heed this practical and reasonable request for the preservation of railway credit of the United States?

#### THE CUMMINS BILL

The Senate Committee on Interstate Commerce, during the months of January and February, held hearings at which all of the interests of the United States concerned with the railway problem presented their views. The subcommittee of five, composed of Senators Cummins, Poin Dexter, Kellogg, Pomerene and Robinson, after several months of earnest consideration, reported to the full committee of the Senate a bill known as Senate Bill 2906, and the full committee has for several weeks been considering that bill as the basis for its report to the Senate for its consideration. That report probably will be made within ten days or two weeks.

The Cummins Bill has adopted many of the features of the Warfield

plan, but as to the two matters which I have just discussed, viz.: fixing the minimum return upon the investment and recapture of excess earnings, it has not followed the Warfield plan in its entirety. The Cummins Bill requires the Interstate Commerce Commission to fix the rate of return to be allowed upon the value as so determined. The commission would then fix the level of rates which will produce the return which it has found proper. We believe that Congress is the body which should fix the minimum return upon railway investment. That is a question of policy and should not be delegated to the Interstate Commerce Commission, an administrative tribunal. At least some of the members of the Interstate Commerce Commission believe that Congress should fix the policy and definitely name the rate of return in the act so that the commission may be controlled thereby in the performance of its duties. Furthermore, the commission cannot fix the valuations of railway properties short of a term of years. It is, therefore, impracticable to expect the commission to determine the value for rate making purposes more rapidly than it is now determining the value of these properties. For current rate adjustments the commission cannot hope to make valuations and for that reason it is absolutely necessary that pending some conclusive valuation the Congress establish a measure of protection. The only available standard or measure is the property investment account. The Cummins Bill undoubtedly should be amended to provide that, pending these final valuations, the commission may use the aggregate property investment account in each rate district upon which to base the minimum rate level which experience has shown to be necessary to sustain transportation, making due provision, of course, that such use of the property investment account shall not be held to establish the cost or present value of railway property. Such an amendment would provide a definite measure for the commission to use, pending valuations. It is equally indispensable that Congress instruct the commission not to depress rate levels below 6 per cent. as a minimum, because we believe that is the irreducible level. Section 6 of the Cummins Bill leaves to the commission the absolute determination of a fair rate level, subject only to the constitutional inhibition against confiscation. This section ought to be amended so as to provide a 6 per cent. ratio in lieu of the following ratio found by the commission in the 15 per cent. case not to constitute a proper rate of return. The figures for class 1 carriers are:

#### RATIO OF OPERATING INCOME TO INVESTMENT

	Pct.		Pct.
1917.....	5.81	1912.....	5.30
1916.....	6.40	1911.....	5.97
1915.....	5.24	1910.....	5.51
1914.....	4.09	1909.....	5.86
1913.....	4.62	1908.....	4.94

Further, the recapture clause of Section 6 of the Cummins Bill is objectionable, in that it fails to prescribe what is *prima facie* a fair return and forces controversy in the courts over the right to any part of the earnings, whether over or under six per cent. A definite minimum return should be protected against recapture in any event. The Commission should be admonished that it must not take any earnings so as to reduce any carrier's return below 6 per cent. upon the value of its property, plus fair reserves to be determined by the Commission and a fair proportion of its excess earnings to furnish incentive and efficiency and economy. The determination of that base limit involves an exercise of legislative discretion. It is entirely safe and legal to permit Commission to determine the question of reserves applicable to all carriers or to each individual corporation. It would also be safe to permit the Commission to determine from time to time what uniform percentage, if any, in excess of one-third of their excess earnings should be retained by any particular carrier. We believe that one-third is the minimum amount of such excess which the road producing it should be permitted to retain, in addition to any reserves permitted by the Commission. The Cummins Bill now requires a carrier to pay back all of its earnings in excess of a fair return upon the value of its property; such a policy is not helpful. The carrier feeling that it had earned 6 per cent. upon its property would take care that there was none in excess thereof if it had to give up all of that. The Act must provide that the carrier may retain a portion of the excess earnings; certainly that should not be less than one-third and it may be that it ought to be greater than one-third, in order that the corporation will be constantly pulling on the traces; operating economically and efficiently.

In another respect the Cummins Bill contains a provision which we regard as highly destructive of railway credit and that is compulsory consolidation within seven years of all of the railway properties of the country into not less than twenty nor more than thirty-five corporations. We believe in consolidation which may be in the public interest and we are willing to leave to the Interstate Commerce Commission the determination of what is in the public interest; but we are opposed to the surrender of the securities now outstanding issued by some two thousand odd corporations, and to have in their stead securities issued by twenty to thirty-five corporations which the Cummins Bill provides for.

#### PROVISIONS AS TO LABOR

There is one feature of the Cummins Bill which is most important and which I think you will heartily approve; that is the provision dealing with wage disputes. Briefly, the Bill creates a Government tribunal for the settlement of all disputes between the employees of

railway companies and the companies themselves, including fixing of wages and conditions of labor. The members of the Senate Committee, perhaps somewhat reluctantly, have reached the conclusion that it is necessary that the Government shall ultimately fix the wages of railway employees. There is no other way possible to handle the present situation. Transportation is a governmental function or at least closely allied to governmental functions. It is, therefore, impossible to contemplate continuing the disturbing controversies between the railway companies and their employees. To handle this situation the Bill creates a Committee of Wages and Working Conditions, composed of eight members, four of whom represent labor and four of whom represent the railroad corporations. The members are appointed for a term of four years; four are recommended by the employees themselves and four by the railroad corporations. The Bill makes it the duty of the Committee of Wages and Working Conditions to consider all complaints submitted by representatives or employees or of the carriers and to make decisions by majority vote as promptly as practicable. The decision of this Committee when finally reached is intended to be binding and conclusive everywhere. The Bill lays down definitions by which the Committee is to be governed. Wages are required to be just and reasonable and in determining the fairness, justness and reasonableness of wages and salaries the Board must take into consideration, among other relative circumstances, the scale of wages for similar kinds of work in other industries, the relation between wages and the cost of living, the hazards of the employment, training and skill required, the degree of responsibility and the character and regularity of the employment. The Bill further carries a provision making it unlawful for two or more persons to enter into any combination or agreement to hinder, restrain or prevent the movement of traffic in interstate commerce, and attaches a jail sentence not exceeding six months. The prohibition is intended to make unlawful both lock-outs and strikes. The individual employee is free to leave the service of the carrier whenever he sees fit; the purpose of the Bill is to prevent combinations of employees which would result in a general suspension of transportation.

We have reached that stage of development and civilization in our country in which the lives and welfare and the health of all the people of the country depend upon the continuous, constant and regular interchange of commodities between communities and persons. There are populous communities in which interrupted transportation for two or three weeks would change a condition of plenty to a condition of starvation. In certain seasons of the year interruption of transportation for two or three weeks would change comfortable warmth to freezing cold. Modern life is so complex and transportation is so essential, that it must be carried on without obstruction. The threat of Mr. Jewell, of the American Federation of Labor, when the carmen's

strike occurred a few weeks ago that he would tie up transportation so tight that cars could not be moved, and the threat of revolution uttered by spokesmen of the railway employes before the Committees of Congress, has brought home to the members of the Committees of Congress that one of the supreme duties confronting them at this time is to make it impossible for arbitrary and uncontrolled power to paralyze the transportation agencies of the country without bringing down upon the guilty party punishment of the law and certainty in paying the penalty for such violation. There has been too much temporizing, too much coddling, in the last two or three years in the treatment of organized labor. What labor is entitled to have, the law should assure it. But the public weal is supreme so long as our present system of government continues and no labor official is without responsibility to the law.

#### ADMINISTRATIVE PROVISIONS

I pass briefly now to other phases of the Warfield Plan. Increased duties and greater responsibilities in large volume fall upon the Interstate Commerce Commission. We, therefore, suggest the creation of six regional commissions composed of three members each. The regional commission under the general supervision and instructions of the Interstate Commerce Commission will enforce the Act to Regulate Commerce will have jurisdiction of rates wholly within their respective territories and in co-operation with the State commissions will function just as the Interstate Commerce Commission. The Interstate Commerce Commission, however, will see to it that the level of rates in each of the territories bears a proper relation to other territories. Labor questions will be submitted to the regional commission locally in touch with conditions.

The Warfield Plan contemplates a continuation of the present rate committees composed equally of representatives of both railroads and shippers to primarily consider and pass upon all changes in rates requested by either railroads or shippers and before being filed with the Regional Commission or the Interstate Commerce Commission as provided in the Plan.

Control of the issue of securities of all carriers engaged in interstate commerce would be vested in the Federal authority.

And lastly, the Warfield Plan would create a corporation operated without profit to the railroads and under Federal control, directed by seventeen trustees composed of the nine Interstate Commerce Commissioners and eight railroad men, to finance in the present emergency such equipment as may be purchased by it from the Railroad Administration and allocated to the railroads and to furnish immediate means for assisting in financing the return of the roads, the corporation to be continued as a permanent means for mobilizing and purchasing

equipment to be leased to the roads, this corporation to have control of the excess earnings reduction fund. This corporation would constitute a management or agency to continue or put into effect the joint use of terminals, unification of facilities, rerouting of freight by pooling, or otherwise, and to continue or adopt such methods of operation as may have been found successful or expedient during Federal control. This corporation would furnish at all times a trained and efficient means for immediate mobilization of the railroads for war purposes without additional legislation.

The Association is opposed to compulsory Federal incorporation of railroads, to the provision for a new cabinet officer to be known as the Secretary of Transportation, or of any bureau which should have any supervision over the Interstate Commerce Commission. We believe the Interstate Commerce Commission should be charged with the duty of providing revenues and supervising expenditures. We are opposed to the creation of new and larger regional companies, believing that the natural methods of combination under the supervision of the Commission, and with the incentive to such merger under the Warfield Plan, will afford to the public the most satisfactory transportation service.

A transportation conference lasting over many months, called by the United States Chamber of Commerce, carefully considered all of the plans for the solution of the railroad problem. It adopted in its entirety the rule for rate making devised by the National Association of Owners of Railroad Securities. It evolved, however, a different method for recapturing excess earnings.

Many state banking associations, manufacturing organization and shippers have endorsed the fundamentals of the Warfield Plan. We believe it affords a just and efficient method for quickly transferring these railroad properties from governmental to private control. It may be that the billion dollars which the Government loses in the experiment of Government operation will not wholly be a useless expense, if it prevents our people from launching upon an experiment in government ownership.

The railroads of our country, in their development, and in the aid which they have afforded to our producers, manufacturers and consumers, under private ownership attained the highest degree of efficiency in service. Our people long for the return of that private operation. I confidently believe that our people will return to the sober and accustomed ways of peace and without adopting new untried theories which would destroy individual initiative and efficiency. The spirit of our institutions as created and developed through 140 years of our national existence must be maintained during the period of reconstruction following the war. You men have your part to play in bringing that reconstruction about. If you believe in the principles



which the Warfield Plan undertakes to effectuate, can you not give it your whole-hearted support.

PRESIDENT LERSNER: If it were in any way called for I am sure the Savings Bank Section could contend that they had successfully approached this very important subject of railway situation without any prejudice or preconceived notion on the part of anybody in the conduct of this affair and the proof could not be better manifested than through reference to the gentleman who is going to take up this question from the standpoint of the plan of the Association of Railway Executives. Mr. Samuel Rea, president of the Pennsylvania Railroad, who is prominently connected with the Association of Railway Executives and has done much in aiding the proposed remedies for railroad ills, is a representative of one of the greatest systems in the world and comes to us as a leading authority highly capable of discussing this serious proposition. I am very glad to introduce Mr. Rea. (Applause.)

## OUR RAILROAD PROBLEM

### SAMUEL REA

It is a pleasure to address those in charge of the savings banks for they have, through their guardianship and investment of the savings of our thrifty people, a substantial financial interest in the proper solution of the railroad question. I am convinced that the savings banks are the chief reliance of our people of small means who should not risk their savings, but should have them within convenient call at all times, and without hazard of diminution. I commend your faithfulness to the trust reposed in you by millions of our people, who deposit their savings, for you to protect their principal against loss, and in addition pay them reasonable interest. The investment of this money by you in safe and useful enterprises, which furnish employment and encourage business, has been an important factor in developing our country and assisting its people to prosper.

Five months ago in this city, in addressing the United States Chamber of Commerce, I suggested a solution of the railroad problem. Since then the Senate and House Committees have had hearings and the benefit of about fifty or more plans on this subject. As a result I now hope we can soon close our talking season, by Congress adopting constructive railroad legislation that will recreate railroad credit.

Today railroad credit is based not solely on railroad earnings but directly on the Treasury of the United States, which is bad for the nation's finances and business, and a burden which increases its taxation.

#### RAILWAY EXECUTIVES' PLANS

To assist in the problem of restoring railroad credit the essence of the plan presented by the Association of Railway Executives, representing stock and other security holders and managers of roads earning about 93 per cent. of the operating revenues of the country, was:

1. Terminate Federal control as soon as necessary legislation is enacted. The Interstate Commerce Commission to immediately adjust rates to restore the roads to a self-sustaining basis. Pending such adjustment the Federal Government to continue the compensation to carriers under the Federal Control Act.

2. Fund indebtedness to the Government arising out of transactions during Federal control.

3. Exclusive Federal regulation of all rates, in order to terminate State controversies and confusing regulation, and enable the Interstate Commerce Commission and the suggested Transportation Board to squarely meet the entire responsibility of adequate revenues required to sustain railroad credit. The Executives did not recommend the abolition of State Commissions. They felt that the State Commissions would still have a very large and extensive field to cover in the regulation of purely local and intra-state utilities, such as gas, power and water companies, urban and interurban transit lines, etc. In addition they might be made of great help in the constitution and the workings of the Regional Commissions also recommended.

4. Establishment of a Department or Board of Transportation to look after the transportation needs and facilities of the country in general, so that new capital might be attracted for future additions and betterments and new equipment. The Board to make recommendations to the Interstate Commerce Commission as to rate increases and adjustments and as to the condition of railroad credit. The administrative functions of the Interstate Commerce Commission to be transferred to the Transportation Board.

5. The Interstate Commerce Commission to be charged with the determination of reasonable and adequate railroad rates, as well as railroad valuation and accounting. Regional Commission to be appointed on which every State would be represented, thereby avoiding the inconvenience and expense of concentrating practically all transportation questions at Washington. The Interstate Commerce Commission to have power to fix minimum as well as maximum rates. The suspension power for final rate approval to be reduced from ten months to about 60 days. The pooling of cars and traffic and the joint use of facilities to be authorized subject to governmental approval.

6. A wage board to be established for the prevention or adjustment of labor controversies, on which the public should be represented.

7. Exclusive Federal supervision of the issue of railroad securities and of all capital expenditures.

8. Broad powers of consolidation and merger of carriers to be conferred in order to eliminate unnecessary corporations. That Federal incorporation of State carriers be permitted if essential for the foregoing purposes.

9. Adequate rates to be made mandatory in order to sustain railroad credit and attract sufficient new capital. A statutory rule to be enacted by Congress requiring that railroad revenues shall be sufficient to pay operating expenses, including wages and taxes, and give a proper return on the value of property used for railroad purposes, and be sufficient to attract new capital to improve and expand the transportation service.

Judging by conditions—past, present and looking to the future—we believed the foregoing requirements to be essential for any rational plan of strengthening railroad credit.

#### DANGERS OF FIXING MAXIMUM RETURNS

As a result of close contact with the railroad problem here and abroad and with the result of past experience of the National and State Governments with public works and railroads before us, we felt that Government ownership or a Government guarantee was not desirable for the railroads of the country. In its last analysis a Government guarantee means Government operation, as, if the Government is to supply the funds, it must have a controlling force in expenditures for railroad operations. The situation today is practically that of a Government guarantee. Similarly, although we realized our plan was not perfect, we avoided fixing a maximum return to all the railroads on the property investment, and a division of profits by individual companies if they exceeded that maximum, believing that any attempt to confiscate surplus earnings of any individual company would surely eliminate initiative, restrict competition and injure credit. Interest rates are exceedingly high compared to the pre-War period, and with the capital necessities of the world far from satisfied, any suggested maximum like 6 per cent. would be too low for a period when the credit of the Government itself, if left free from Bank and Treasury support, is nearly 5 per cent. The railroads have to raise about a billion dollars annually of new capital for improvements and equipment, as well as provide for maturing notes and securities, and may find 6 per cent. insufficient for several years. Further, the danger of maximum earnings may be illustrated by the experience of many of the street railways of the country and their franchises, where the five-cent maximum fare was regarded as providing a sufficient margin

of profit to meet all conditions, but, when confronted with world-wide war conditions, the five-cent fare proved totally inadequate compared to costs and taxes, so that public utility companies are as bad a problem for the country to adjust as the railroads. Many of us remember leases in which 60 per cent. or 70 per cent. of gross was considered an ample compensation to a lessee to operate a road but the lessees in most cases were later compelled to buy up the stocks of such roads and cancel the leases, because 60 per cent. or 70 per cent. of gross proved insufficient to pay operating expenses, while the rent of 40 per cent. or 30 per cent. of the gross paid to the lessor, as earnings increased, became a bonanza.

From a long experience I distrust arbitrary maximum returns unless all other factors such as income, taxes, interest, etc., are likewise fixed, because we cannot foresee or control future business and financial conditions. I have more sympathy with specifying a minimum return as a guide to our Commissions of what is an unreasonably low transportation rate and an unfair return on the investment, instead of relying on the courts to save the common carriers from confiscation. I would consider a return of 6 per cent. on the property investment a minimum return, especially now when money will cost the railroads even higher figures. Judging by past experience there did not seem to be the requisite authority or initiative in the Commissions—Federal and State—to make rates that would produce a return of even 6 per cent. for a Traffic District, or rate making group of railroads, except in years when the roads showed an unexpected expansion of business and when costs continued somewhat stationary, as in parts of the calendar years 1909 and 1916. I have been informed that a minimum would not be specified by Congress, unless it be an absurdly low return like 4 per cent., upon which even the Government itself has not been able to borrow the money it required, and which would be absolutely too low to form a credit basis for the railroads. Well, neither a maximum nor a minimum is required, if Congress will take the responsibility of directing the Federal Commissions to enable the railroads to resume business on a self-sustaining credit basis, and attract the necessary additional capital for improvements to properly serve the public. The railroads cannot serve the public if they continue on the "bread line." They are a menace to prosperity, while if prosperous they pay high taxes, improve and expand their facilities, give employment and make the industries prosperous. In good years they should be allowed to earn well above any minimum, so that in lean years the public will not be asked to pay increased rates to offset large deficits.

#### CUMMINS' BILL

Now in response to all the testimony on the railroad question, and the various plans suggested, and the serious condition of railroad credit,

a tentative Bill, Senate 2906, has been introduced by Senator Cummins to solve our problem. It is the first broad friendly legislative expression towards railroads in probably the last fifteen or more years. Therefore, I propose to briefly and, I trust, constructively review some of its salient features that may interest savings banks' executives, with the expectation that Senator Cummins will not consider the railroads and their owners ungrateful for the work he and his committee have tried to do for the country, but with the sincere hope that he and his associates will endeavor to correct some features of the Bill, affecting the financial and investment aspect of the situation.

#### BENEFICIAL FEATURES—CUMMINS' BILL

Omitting criticisms of phraseology and detail, I consider some of the benefits sought to be promoted by the proposed measure are:

1. Return of the railroads to private ownership.
2. Funding of indebtedness of the roads to the Government for capital expenditures made during Federal control—but certainly it ought to be for not less than ten years rather than five years, considering financial conditions generally, and the annual requirements for capital by the railroads, while, for general indebtedness, some security other than demand notes should be provided, otherwise credit will be imperiled rather than helped by such funding. This is equitable because the Government assumed control, and should leave the railroads in at least as sound physical and financial condition as when they were taken over, and capable of carrying on the transportation business of the country. In the War period while the merchants, the industries, the farmers and others were protected by higher prices, and were given a basis on which to make profits consistent with the higher living costs, the railroads under Government control were not placed in that position. Consequently, they should not be asked to pay the large capital expenditures of the War period without assistance from the Government to fund them for a long period and at low interest rates. These capital expenditures were made to assist in protecting the life of the nation, and the roads should also have transportation rates sufficient to hereafter sustain them.
3. Exclusive Federal regulation of securities.
4. Reduction of rates suspension period from ten months to five months.
5. Creation of a Transportation Board charged with oversight of railroad physical conditions and administrative questions and general credit.
6. A more detailed definition of what elements shall be considered in deciding a reasonable rate.
7. Prevention of strikes that would interrupt interstate commerce.
8. Pooling of earnings and traffic.

9. Clothing the Interstate Commerce Commission with power to prescribe minimum as well as maximum rates.

#### OBJECTIONABLE FEATURES—CUMMINS' BILL

Some of the objectionable features are:

1. The Interstate Commerce Commission is not given effective authority over State rates. Without this authority how can the Commission and the Transportation Board fully protect railroad credit?

2. The provision as to making compensatory rates and permitting a return sufficient to maintain railroad credit and provide adequate facilities are not sufficiently definite and mandatory to produce that result.

3. Labor provisions are too diffuse to be effective.

4. The purposes for which voluntary consolidations can be made, are too restrictive in their scope and the provisions as to compulsory consolidations are fatal to railroad credit.

5. The commandeering of the so-called excess earnings of individual companies, and penalizing surplus earnings if used to provide better railroad facilities, is a decided blow to operating initiative and conservative financing.

6. Railroad valuation in its present form cannot be used for the various purposes proposed in the Bill, nor can it be completed to enable the Commission or the carriers to promptly carry out the various provisions of this proposed law.

7. Confusion of authority for acquiring property and authorizing additions and betterments.

I will comment further on some of these objections.

#### RAILROAD VALUATION AND ITS USES

The valuation found by the Interstate Commerce Commission, under the present law, is claimed by the Government to be a valuation only for rate making purposes, but this Bill requires the same valuation to be used for rate making, capitalization, consolidation, and the measure of a fair return, or as a selling price of the property, and apparently the Commission may change that valuation from time to time. To wait for the final valuation will cause great delay and any intention of its use for all of these purposes is bound to be disappointing. Therefore, rather than stop all progress in fixing reasonable rates, let the existing property investment be used pending final valuation, as it is the return on the property investment of a Traffic District that is a guide to the Commission in rate making, and not of single companies, and so far in those districts the return has been found too low for sound railroad credit.

**AUTHORIZATION OF ADDITIONS AND BETTERMENTS AND ACQUISITION OF PROPERTY**

The Bill provides that the right of eminent domain cannot be exercised without a certificate of the Transportation Board and the Interstate Commerce Commission for acquisition, construction, maintenance or operation purposes, or any authorized extension or addition thereto, but authority to proceed with any new construction is divided between the States and the Federal Commissions. The construction of a new line of railroad or extension must be authorized by the Transportation Board, while the latter Board is specifically excluded from authorizing the construction of side tracks, spurs, industrial, team or switching tracks located wholly within one State—for that the railroads must apply for State authority. The question of branches and terminals does not seem to be very accurately defined. This serious question is further tied up by the approval of the issuance of securities to carry out such work being solely under Federal authority. Therefore, I regard the provisions for carrying on improvement work and exercising eminent domain under such divided Federal and State authority as detrimental to business. Industries cannot defer the establishment or extension of their plants on such a divided and dilatory process to determine new branches, sidings, or station improvements. The entire responsibility for authorizing the acquisition of all additional right of way or terminal areas, as well as all new capital expenditure work, should at least be concentrated under one Board, just as the issuance of securities is to be solely under the Interstate Commerce Commission. When improvements are so authorized, no public benefit is secured by requiring the consent of any governmental body to the exercise of the power of eminent domain. The requirement of such consent would mean delay and enhanced cost of property.

**LABOR PROVISIONS—ARE THEY EFFECTIVE?**

I have the following views on the labor provisions of the Bill:

Note that they primarily concern not only the management and investors but the welfare of 1,900,000 employees and affect the payment of \$2,800,000,000 in wages. The final decision on railroad wages is given to the Transportation Board. No qualifications are stated for the members of this important Board, which is to deal with the operating and administrative questions of all the railroads, including wages. Subordinate to this Board is a Committee on Wages and Working Conditions, consisting of eight members, four of whom shall be selected from the persons nominated by the organized railroad working crafts on each railroad to represent labor, and four from among the persons nominated by all the railroad corporations, and I suppose the Transportation Board is expected to represent the public. Four years is the term of office and \$4,000 each the compensation

of the members of the Committee on Wages and Working Conditions. Unless this Committee is expected to pass all disputes to the Transportation Board, surely that short term and that salary are insignificant compared to the magnitude of this responsibility, which has tested the ability of the President and the Director General, and the Railroad Managers. For that task the best railroad managers who understand social questions as well as operating questions are needed, and the labor members must be up to the same standard. Any suggestion as to standard wages that take no account of the varying living costs and conditions as between New York, Florida, California, Kansas and Maine is contrary to economic experience. No equitable plan for the avoidance of future disputes as to wages will be complete or protective against strikes, unless a sliding scale is adopted, whereby wages will be adjusted to living costs. Settlement of wages under pressure or as a compromise, is bound to produce dissatisfaction.

A further labor proviso is that on the Board of Directors of each carrier there shall be two labor directors and two Government directors after June 30, 1920. The two labor directors shall be selected from the classified employees and nominated by the employees. The two Government directors are to be appointed by the Transportation Board, and apparently whether satisfactory or unsatisfactory to each Corporation. On all Committees of the Corporations' Board there shall be at least one labor director and one Government director. These labor and Government directors are to be compensated and their expenses paid by the Corporation for attending Board and Committee meetings. There is nothing to show whether they are to be on the two thousand or more railroad boards of the country, or only on the boards of the operating carriers. Wages and working conditions are to be settled by the Committee on Wages and Working Conditions and by the Transportation Board in Washington so that no individual carrier corporation will have any responsibility for wages. Further, no carrier can prescribe the wages of its own employees independent of other railroads. Therefore, these labor and Government directors on the Board of Directors of every carrier corporation seem to be like the fifth wheel of a wagon. They have no prescribed responsibilities or qualifications, and nothing is said as to the responsibility of the Government for their votes. Looking for the results to be expected from the two Government directors, the Bill does not permit railroad companies to make capital expenditures, to exercise the power of eminent domain, or to issue securities except upon Government approval. What useful service, therefore, will these two Government directors render? If these four directors, instead of sitting on the carrier's Board of Directors, could be elected one-half by the carrier and one-half by the employees and work as subordinates to the Committee on Wages and Working Conditions, they might give a touch of home rule to the labor question, and form a thread of a labor organization starting



from the local ground and ending with the Transportation Board which might be of some benefit. This is a suggestion and not a solution of the railroad labor question but indicates the necessity for careful revision. It would appear wiser to let the Transportation Board, which has final responsibility for wages and for governmental supervision of the railroads, direct how employes and corporations and the public shall be represented, and avoid prescribing elaborate machinery.

There is another labor provision, i. e., an Employees' Advisory Council selected from each organized craft of railroad employes requesting representation, to administer a fund consisting of one-half of any excess earnings over a fair return which any company guilty of that rare offense under a system of rates which must be reasonable and uniform, shall pay over to the Transportation Board. This duty might very easily be performed by the Committee on Wages and Working Conditions or the Transportation Board and dispense with this Advisory Council.

#### CONSOLIDATION INTO COMPETITIVE SYSTEMS

I am in favor of consolidation. The Bill declares it is the policy of the United States to divide the railroads into not less than 20 nor more than 35 separate and distinct systems—this division to be a division in ownership and for operating purposes. Each of the systems is to be owned and operated by a distinct corporation and, where practicable, the existing routes and channels of trade and commerce are to be maintained. The systems are to be so arranged and equalized as far as practicable, that uniform transportation costs, uniform rates and the same rate of return on value may be earned.

The Transportation Board shall devise and adopt the system plans, but may thereafter change the same. The Interstate Commerce Commission must also approve them. The Government will have no financial responsibility for their formation either in the voluntary consolidation plans, or in those regional companies to be mandatorily formed after seven years by order of the Transportation Board. The arresting of the laws of gravitation appears to be as easy to accomplish as to arrange and maintain these ideal systems, considering the divergent traffic, physical, financial and other conditions of the various roads in even a single traffic district. If anything is calculated to stop consolidations, and make them impossible to finance, it is railroad alignment of this arbitrary character. The existing systems have been formed under a competitive system and follow the lines of the natural traffic routes, and are feeders and the extensions of the original trunk lines, and in that way became attached to them as systems. Others might be formed gradually on similar lines, and as their organizations could be trained for the enlarged responsibilities.

The necessity for absorption, merger and consolidation of smaller corporations is apparent.

Analyzing the last complete Interstate Commerce Commission report for the year ending June 30, 1916, we find 1590 companies are divided into the following classes: Class I, 189 railroads; Class II, 276 railroads; Class III, 431 railroads; Switching and Terminal companies, 227; Lessor Companies, 467. These 1590 companies do not include about 600 roads that are privately owned, or industrial lines not common carriers in the broad way, some of which report only to State Commissions.

The 189 first class roads, together with their lessor companies, earned 97.4 per cent. of the total operation revenues of the country. Now taking 162 of the chief operating companies which earned 94.6 per cent. of the total operating revenues of the country, we find that they already constitute 86 systems. But only 18 systems during the test period earned over 6 per cent. on their property investment, those systems being as follows: Bessemer & Lake Erie, Delaware & Hudson, Delaware, Lackawanna & Western, Elgin, Joliet & Eastern, Lehigh & New England, New York Central, Philadelphia & Reading, Atlantic Coast Line, Norfolk & Western, Alabama, New Orleans, Texas & Pacific Jct., Arizona & New Mexico, Bingham & Garfield, Chicago & Northwestern, Duluth & Iron Range, Duluth, Missabe & Northern, El Paso & Southwestern, Great Northern, and Union Pacific.

Therefore, until earnings are increased, it is hard to see the basis on which the railroads can proceed with any wholesale plan of absorption or consolidation. The 86 systems existing can be reduced, not arbitrarily but as traffic and earnings justify. Indeed, as 23 systems already handle about 80 per cent. of the total operating revenues, there seems to be no necessity or benefit to be obtained from constituting, valuing and financing new systems arbitrarily put together. These 23 systems were: Baltimore & Ohio, Boston & Maine, Delaware, Lackawanna & Western, Erie, Lehigh Valley, New York Central, New York, New Haven & Hartford, Pennsylvania, Philadelphia & Reading, Atlantic Coast Line, Chesapeake & Ohio, Illinois Central, Norfolk & Western, Southern, Atchison, Topeka & Santa Fe, Chicago & Northwestern, Chicago, Milwaukee & St. Paul, Chicago, Rock Island & Pacific, Great Northern, Northern Pacific, St. Louis & San Francisco, Southern Pacific, and Union Pacific.

What the railroads need is not an arbitrary division of the country into 20 nor more than 35 distinct and arbitrary systems formed by mandate of the Federal Government and the changing views of various Boards or Commissions; nor any attempts to tie the weak and the strong together, in the hope that in some way or other the few strong railroads of the country can support the weak lines, including lines that have thin traffic or should never have been constructed. The railroads want laws that will permit the existing railway systems to

absorb and eliminate the affiliated companies now owned, operated, leased or affiliated with their systems. Such further connecting roads may be added as may be required to round out these systems on a basis that would be approved by the Federal Commissions.

In the Pennsylvania system there are about 140 live companies, consisting of railroad companies, ferry companies, bridge companies, water companies and warehouse companies—all essential for transportation purposes. They are leased or operated, wholly owned, or owned in part by the parent company. Therefore, an absorption law to clear up the barriers in the existing charters and divergent State laws that prevent the absorption of such affiliated companies, to round out a single system and leave the name and securities of the parent companies unchanged, seems desirable. No such absorption of small companies by the large systems can proceed on any large scale without reasonable earnings to enable that course to be pursued, and thereafter leave the system in a strong position to do its financing on reasonable terms.

The big systems have absorbed many weak lines, and are now supporting other weak lines, and they have about reached the limit in that respect.

#### RATE REGULATION BY STATE AND FEDERAL AUTHORITY

At the conclusion of Federal control the Bill states that rates are to remain in effect until changed by competent authority. This means State as well as Federal. You can see what a hopeless state of confusion will be caused by throwing all the States into rate regulation again. The carriers are to file new schedules of rates, fares and charges with the Commission within thirty days after Federal control terminates, the same to become effective four months after they have been filed. During this period of readjustment, but for not exceeding five months, the compensation under the Federal Control Act is to be guaranteed. During the calendar year 1917 it took about seventy-five cents out of every dollar to pay operating expenses and taxes, and now it is costing over ninety cents out of every dollar. Certainly for this period of reconstruction, affecting the entire nation, the United States Government should readjust all rates—State and Interstate—to meet the transportation costs, and properly establish railroad credit, by exercising the same control over rates as was done during Federal control. It is true that the Bill authorizes the Interstate Commerce Commission to co-operate with the State Commissions and remove any unreasonable discrimination against interstate and foreign commerce, but the act specifically states that it does not amend or affect the existing State laws or powers in relation to taxation or the lawful police powers of the several States, including the power to make and regulate intrastate rates except as in the Act otherwise provided. It

will, therefore, be seen that such reservations will produce extensive proceedings or controversies so as to delay justice to the carriers, or to other States that may be affected by the rates made in a single State. It also divides the responsibility as to the credit of the carriers. The declarations of policy and elements affecting reasonable rates should be made so mandatory that the Federal Commissions should have a positive duty to see that the rates, both state and interstate, are adequate to protect that credit.

The Cummins Bill as it stands, gives us no definite or prompt assurance of adequate rates nor does it get us away from conflicting State regulations. To make it a truly constructive measure it must be strengthened and amended in these fundamental particulars.

#### DANGERS IN PROHIBITING SURPLUS EARNINGS TO BE INVESTED IN THE PROPERTY

The provisions relative to commandeering and using for other railroad companies and for railroad employes the so-called excess earnings of individual companies will throw many railroad investments again into a condition of uncertainty, because a fair return is not prescribed or defined, and what may be a fair return for one company, and for one year, may at the lapse of the next year be reversed by the Commission, or be varied for other companies. There will be no incentive to any carrier to earn any money in excess of the payment of an ordinary dividend, not only because of the confiscation of the so-called excess earnings, but the further provision that any surplus earnings invested in the property cannot be capitalized or used as a basis for increased returns. Both provisions in substance will force all future additions, betterments and improvements to be provided from the issue and sale of securities. Such provisions would terminate conservative financing, as under private ownership the money for new improvements could be had only from the sale of bonds under these conditions, and at higher interest rates to accord with the risk of bad years. If this system is once established for the railroads, it will in time be applied to all public utility companies at the outset, and later to industrial and manufacturing concerns, because their products are just as essential for the daily life of the citizen as railroad transportation.

I desire to emphasize the fact that the conservative railroads which have successfully weathered the various panics, industrial and financial, here and in England, without wiping out or reducing their dividends, are those railroads which used their surplus over reasonable dividends to provide additional facilities and equipment for the public use, instead of selling stocks or securities for that purpose.

The Pennsylvania system is a fair example. Its property cost and marketable securities, not including holdings of securities of companies

forming part of the system, exceeds the total outstanding securities in the hands of the public to the extent of over \$500,000,000. If the company instead of following that practice had distributed all its yearly surplus in dividends, and had sold securities for all additions and betterments to its property and equipment, it would now require \$30,000,000 per annum of additional net income to pay its 6 per cent. dividends, or the company's stock would have been reduced to a 4 per cent. dividend, and its bonds would have had to carry a much higher rate of interest because of weaker credit. It would have been impossible for it to have sold its stock on the market, and that would have been to the detriment of the country and industry, as well as to the company's security holders and owners.

The company's surplus was not derived from excessive transportation charges. These charges have been materially below those authorized by its charter. The freight charges especially were materially reduced from the beginning of operation, about seventy years ago, to within recent years, and almost ruinous competition among the various roads had a great effect in reducing these charges. The surplus for improving the company's credit and property was obtained not only from moderate profits in the transportation business, but by paying low dividends on its stock for a long series of years, from selling its stock at premiums, and from profits realized on its investments. This surplus was invested in the property for the improvement of the same for the public use, when legitimately it might all have been disbursed in dividends to the stockholders.

This practice was also followed by other companies without any regulation or legal requirements, and the public has benefited. What I object to is: (1st) the reprehensible feature that what a company earns under fair and uniform rates through good management and efficient transportation can be taken from it and given to others, thereby sapping the spirit of initiative and competition, and (2nd) Federal regulation that ultimately will create a situation in which no surplus earnings over a fair return can exist, and that absolutely penalizes the railroads if they invest any surplus earnings in the property for the benefit of the public. If these provisions are allowed to stand, then the least I can ask is that an allowance of some surplus over a fair return in good years should be made mandatory, and not permissive, to assist in lean years. Otherwise in bad years, rates would have to be increased when the shippers could least afford to pay them.

If the Pennsylvania Railroad Company after paying its fair dividends is not to have a surplus to sustain the credit and operations of weak roads in its system, then several hundred miles of railroads must stop operations and improvements, and communities must suffer.

The Pennsylvania system represents about 6.5 per cent. of the whole

track mileage of the country, about 13 per cent. of the ton mileage, 13.5 per cent. of the passenger mileage, and its track mileage is about one-half of that of Great Britain and Ireland, and it has invested for public use \$1,800,000,000 in its road and equipment, approximately one-tenth of the whole railroad investment of this country. It has been opened for traffic sixty-seven years, and during that time its management has observed a sane and conservative financial and operating policy, and dealt as generously with labor in wages and welfare funds to the extent the earnings permitted. I have the honor of having served the company, with the exception of a few years, since 1871, and for thirty years have been closely associated with the Executive Department, familiar with the construction of new lines and branches to serve the public and the financing, upbuilding and compacting of the system. Therefore, I can speak intelligently, and indeed feelingly, about the company's policy and affairs. So far as public regulation is concerned, for the last ten years the company has not been allowed sufficient revenues to earn 6 per cent. on the cost of its property and equipment except in 1909 and 1916. Yet so far as the management is concerned, long before there was any regulation of the railroads, as we now understand it, the Pennsylvania Railroad Company did not distribute all of its net income in dividends, but judiciously applied a substantial portion to promoting, helping and upbuilding its feeders and connecting lines, to eliminate grade crossings, and for other similar construction items. It was not alone in this policy. Other companies pursued the same course, and they could be depended upon to continue such policies, under proper regulation, without injustice to the public. Then why must Congress now propose as a future national policy, to confiscate their so-called surplus earnings and stop incentive, and on the other hand fail to definitely order reasonable rates that must produce a fair return upon which railroads can live and make progress?

#### THE PROBLEM AND THE REMEDY

The railroad problem has not changed, nor is it shrouded in mystery. It is this: Railroad earnings and credit must be created sufficient to support the existing railroad investment and attract the additional capital the transportation business requires in the public interest. New capital cannot be commandeered. Therefore, adequate rates made under public approval, with opportunity for competition, initiative and incentive, is the effective remedy for the whole problem in my opinion. If adequate rates had been granted in the past decade, there would not have been a railroad problem. I desire to see the Cummins' Bill amended to definitely accomplish that result. If that mandate is not positively forthcoming as the result of the new congressional legislation, all the boards and machinery created for regulatory pur-

poses will be useless. Extreme care must be exercised to insure sound credit, and not theorize about it. If public regulation does not allow earnings sufficient to sustain railroad credit, and provide necessary transportation facilities, the public will be forced to regard regulation as a huge waste of money, time and effort, and demand a simplification of the situation, and start with a new slate, or drive straight for Government ownership with its train of higher costs, in efficiency, and political domination of the employes and of the industries depending on the railroads. National reconstruction cannot be accomplished while railroad investments and credit are left in an unsatisfactory condition. This should spur Congress, the Commissions, the investors, the employes, railroad management, and the public to work together for an equitable and prompt solution of this great problem. To that end the railroad executives are prepared to devote their whole time and attention, if the Congressional Committees so desire. Further delay is extremely dangerous to all concerned.

**PRESIDENT LERSNER:** The chairman of the Committee on Resolutions will now read the report of his Committee.

## REPORT OF COMMITTEE ON RESOLUTIONS

**RAYMOND R. FRAZIER, Chairman**

*Resolved,* That the Savings Bank Section of the American Bankers Association views the existence of laws which exempt from taxation the borrowings of any particular class of citizens as class legislation, and believes the exemption of such borrowings from taxation interferes with the revenue system of the country by freeing from their just proportion of the burden of the war debt those most able to bear it; and be it

*Further Resolved,* That the Savings Bank Section expresses its disapproval of the continuance or extension of this form of subsidy as provided for at present in the Federal Farm Loan Act, and as is proposed in similar pending legislation.

*Resolved,* That the Savings Bank Section address a plea to our national legislators, urging upon them the adoption through necessary legislation, of a budget system for the conduct of our national financial affairs.

*Resolved,* That the Savings Bank Section endorses the purpose of the Treasury Department in the promulgation of plans for savings and thrift, and urges the banks of the country to heartily co-operate with governmental agencies, to the end that thrift may be increased and production stimulated.

*Resolved,* That the Savings Bank Section commends to its mem-

bers the promotion of and co-operation with Thrift Week plans under the auspices of the International Committee of the Y. M. C. A.

*Resolved*, That the Savings Bank Section heartily appreciates the splendid hospitality extended to the delegates by the bankers and other citizens of St. Louis, and is thankful for the cordial assistance tendered for the success of our Convention by the local committees, the hotels and the press.

*Resolved*, That the Savings Bank Section tenders its thanks for the valuable contributions to its discussions and deliberations tendered by Messrs. Ralph Ingalls, Osgood E. Fifield, George Woodruff, Geo. E. Roberts, Robt. F. Maddox, Howard F. Beebe, Jerome Thralls, Kingman Nott Robins, Richard S. Hawes, John L. Ganz, Luther M. Walter, and Samuel Rea.

*Resolved*, That the Savings Bank Section recognizes the splendid enthusiasm and rare executive ability displayed during the year by our retiring President, Mr. Victor A. Lersner.

*Resolved*, That the Savings Bank Section appreciates the utmost activities during the year of all of its committees; that it especially commends the educational work conducted in the study and dissemination of feasible plans for the amortization of mortgage loans, and that it recommends a continuance of those efforts, to the end that mortgage companies generally and savings banks in particular may be induced to adopt and promulgate plans for the systematic reduction of mortgage indebtedness, thereby insuring thrift among borrowers, which will, in turn, directly increase the wealth and general prosperity of the nation.

*Resolved*, That the Savings Bank Section expresses its high regard for the splendid ability and achievements of Mr. Milton Harrison, our retiring secretary, who has brought to bear upon his activities a combination of knowledge and enthusiasm as well as capacity for actual work rarely found in men. We recognize that those so accomplished must inevitably be called to more independent fields of action. We hereby tender him our best wishes for his continued success, and the assurance of our confidence that permanent general benefits will grow out of his efforts in the field of his new opportunities.

The report was unanimously adopted.

#### NOMINATION AND ELECTION OF OFFICERS

The report of the Committee on Nominations was presented by Chairman Noel as follows:

For President: S. Fred Strong, treasurer Connecticut Savings Bank, New Haven, Conn.



For Vice-President: W. A. Sadd, president Chattanooga Savings Bank, Chattanooga, Tenn.

For member of Executive Committee to fill unexpired term of W. A. Sadd, term expiring 1920, W. E. Knox, comptroller Bowery Savings Bank, New York City.

For member of Executive Committee 1919-1922: Melvin A. Traylor, president First Trust & Savings Bank, Chicago, Ill.; Louis Betz, treasurer State Savings Bank, St. Paul, Minn.; W. D. Longyear, vice-president Security Trust & Savings Bank, Los Angeles, Cal.

The report was adopted and the new officers unanimously elected.

PRESIDENT LERSNER: It is with a peculiar sense of satisfaction and pleasure that I pass this office to you, Mr. Strong. While I congratulate this Section upon securing you as its President, I want to congratulate you upon the certainty of receiving from the Section through the instrumentality of its officers the delightful, ardent, friendly co-operation that has been the reward for my term of office. I am very willing to turn the office over to you knowing that it will rest in the most secure and competent hands. (Applause).

MR. STRONG: Mr. Lersner and members of the Section, words can hardly express my feeling in regard to the honor which you have conferred upon me in making me the President of this Section. I appreciate the duties of President and realize that I will need the help of every one in the Section. I ask of you all your cordial co-operation during the coming year.

Upon motion the meeting adjourned *sine die*.

## REPORT OF THE SECRETARY

MILTON W. HARRISON

Gentlemen: It gives me pleasure to report the greatest progress during the past year, of any year in the history of the Section. The added opportunities for rendering service because of reconstruction problems, have been followed assiduously.

The record of the work of the secretary's office is reflected in the reports of your various committees as submitted to this meeting.

The undersigned resigned his office to take effect at the end of the

fiscal year, August 31, 1919, and accepted the position of secretary and executive manager of the Savings Banks Association of the State of New York as of September 1, 1919. By mail vote your executive committee has appointed Mr. Leo Day Woodworth as its section secretary. I have personal knowledge that Mr. Woodworth comes well equipped to serve the Section as its executive officer. For many years he has been connected with the general real estate business and the loan activities of the savings banks; has been secretary, vice-president and president of the New York State Real Estate Association; executive secretary, Advisory Council of Real Estate Interests in New York city, which position he resigned to become secretary of the Savings Bank Section. Mr. Woodworth is also secretary-treasurer of the New York State Tax Association, which is not a paid position; he was a member of the Michigan bar and has been an appraiser for the Federal Land Bank of Springfield; he started upon his new duties on September 1, last.

Your secretary has completed five A. B. A. conventions in the employ of the Section. They have been five years of contact with splendid men and most interesting affairs. Your secretary has counted it as his high privilege to have had this association.

Your secretary has attended several conventions for the American Bankers Association and has addressed the Maryland and Virginia Bankers Associations' conventions. He also has visited fifteen cities in the middle West and South in the interests of the American Institute of Banking and the Savings Bank Section.

As to membership, there has been a net gain in the Section of 219 banks—260 banks joined but 41 were lost by failure, liquidation, merger, or non-payment of membership dues. September 1, 1918, the membership was 4155 banks; on September 1, 1919, it was 4374 banks, of which 2654 banks are voting members and 1720 are associate members. A detailed report is attached.

Section finances during the past year have been as low as consistent economy would permit in accordance with Section accomplishments. Expenditures have been \$13,546.20, or \$290.11 in excess of the amounts to the credit of the Section. At the Chicago convention an appropriation was received of \$10,500.00 which was \$3,000 less than the amount requested. At the spring meeting \$3,000 additional appropriation was requested and \$2500 was appropriated. The appropriation requested was to cover only actual expenses, hence the appropriation made was inadequate to carry the Section through the fiscal year. However, when it was observed that a deficit was certain, President Lersner, in a letter dated July 24, 1919, to Vice-President Hawes of the American Bankers Association, requested the sum of \$355.13 to be advanced from the American Bankers Association and included in the 1919-1920 budget of the Section. Mr. Hawes courteously responded, approving the advancement and promising cooperation in having the amount appropriated at the St. Louis convention. The financial statement is attached.

Your secretary desires to record his appreciation for the many courtesies given to him by the executive committee, the officers and members of the Section and Association, as well as the office staff of the American Bankers Association, during his five years incumbency as Secretary of the Savings Bank Association. They have been five years of most satisfactory effort.

## REPORT OF MEMBERSHIP COMMITTEE

STATE	ACTIVE					ASSOCIATE		Total	Lost
	Mutual	Stock	State	Trust and Sav.	Private	Nat'l	Trust Co.'s Etc.		
Alabama.....	0	6	8	3	0	6	4	27	0
Arizona.....	0	1	4	1	0	5	7	18	0
Arkansas.....	0	2	16	5	0	7	8	38	0
California.....	1	103	61	18	0	47	15	245	5
Colorado.....	0	7	4	3	0	6	7	27	0
Connecticut.....	60	0	0	1	0	7	16	84	1
Delaware.....	2	0	0	0	0	3	7	12	0
Dist. of Columbia	0	23	3	1	0	2	2	31	1
Florida.....	0	3	21	0	0	11	10	45	0
Georgia.....	0	12	33	5	0	8	12	70	1
Idaho.....	0	2	8	1	0	13	2	26	0
Illinois.....	0	41	73	44	5	61	48	272	3
Indiana.....	2	1	33	7	1	34	41	119	1
Iowa.....	0	340	26	21	0	40	82	509	8
Kansas.....	0	10	35	0	0	20	4	69	1
Kentucky.....	0	3	6	5	0	7	9	30	0
Louisiana.....	0	7	5	2	0	14	17	45	1
Maine.....	23	0	0	1	0	10	13	47	1
Maryland.....	18	8	20	0	0	8	7	61	0
Massachusetts.....	132	0	3	0	0	13	17	165	2
Michigan.....	0	182	95	5	0	27	15	324	3
Minnesota.....	3	3	50	0	0	36	7	99	1
Mississippi.....	0	3	9	3	0	8	18	41	0
Missouri.....	0	26	31	4	0	17	26	104	0
Montana.....	0	0	18	5	3	10	4	40	0
Nebraska.....	0	4	22	0	0	15	1	42	0
Nevada.....	0	0	2	0	0	3	0	5	0
New Hampshire.....	16	0	0	3	0	7	3	29	0
New Jersey.....	19	1	4	2	0	45	39	110	0
New Mexico.....	0	4	5	4	0	6	3	22	0
New York.....	103	0	12	1	1	45	15	177	2
North Carolina.....	0	8	19	5	0	15	19	66	0
North Dakota.....	1	3	15	0	0	18	4	41	2
Ohio.....	7	111	36	34	2	43	51	284	2
Oklahoma.....	0	0	9	1	0	19	1	30	0
Oregon.....	0	8	14	2	1	15	3	43	0
Pennsylvania.....	6	22	29	8	0	95	54	214	3
Rhode Island.....	9	0	0	0	0	1	3	13	0
South Carolina.....	0	13	19	0	0	18	9	59	1
South Dakota.....	0	15	26	2	0	18	5	66	0
Tennessee.....	0	9	4	15	0	14	14	56	0
Texas.....	0	2	11	3	3	10	4	33	1
Utah.....	0	8	7	3	1	8	4	31	1

## REPORT OF MEMBERSHIP COMMITTEE—Continued

STATE	ACTIVE					ASSOCIATE		Total	Lost
	Mutual	Stock	State	Trust and Sav.	Private	Nat'l	Trust Co.'s Etc.		
Vermont.....	14	0	0	8	0	5	8	35	0
Virginia.....	0	12	10	2	2	12	11	49	0
Washington.....	0	7	30	10	1	24	24	96	0
West Virginia...	1	3	9	5	0	18	9	45	0
Wisconsin.....	1	21	48	0	0	41	16	137	0
Wyoming.....	0	1	2	1	0	4	2	10	0
Canada.....	0	0	33	0	0	0	1	34	0
Cuba.....	0	0	0	0	0	2	0	2	0
Hawaii.....	0	0	4	0	0	2	0	6	0
Porto Rico.....	0	0	5	0	0	1	0	6	0

Total Banks	418	1,035	937	244	20	924	701	4,279	41
Total Chapters A. I. B. and State Secretaries.....								95	

Gross Membership.....	4,374
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## Active and Associate Members:

Total, September 1, 1919.....	4,374
Total, September 1, 1918.....	4,155

Gross gain since September 1, 1918.....	260
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Lost by failure, liquidation, merger and delinquent....	41
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Net gain since September 1, 1918.....	219
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## Associate Members:

National banks.....	924
State banks and trust companies.....	701
State secretaries.....	49
Chapters, A. I. B.....	46

Total associate members.....	1,720
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Members: Active.....	2,654
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Members: Total September 1, 1919.....	4,374
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## FINANCIAL STATEMENT

From September 1, 1918 to August 31, 1919, Inclusive

## DISBURSEMENTS

Rent .....	\$ 884.92
Traveling Expenses.....	75.28
Salaries .....	7,399.41
Postage, Stationery and Printing.....	1,634.76

Telephone and Telegrams.....	\$227.26	
Convention Expenses.....	815.66	
Executive Committee Meetings.....	997.83	
Book of Proceedings, 1918.....	1,000.00	
Extra Office Help.....	434.63	
Books and Publications.....	32.45	
Refund Account Book of Forms.....	4.00	
Reporting War Service Conference.....	30.00	
Flowers account death of Mrs. Pulleyn.....	10.00	\$13,546.20

## CREDITS

Sept. 27, 1918, by appropriation of Ex. Council	\$10,500.00	
May 19, 1919, by appropriation of Ex. Council	2,500.00	
Received from sale Book of Forms.....	100.59	
“ “ “ Bulletin of Mort. Loans	87.00	
“ “ “ Thrift Outfits.....	43.00	
“ “ “ 100 Years Savings Banking	25.00	\$13,256.09
Debit Balance.....		\$290.11

## REPORT OF COMMITTEE ON FEDERAL LEGISLATION

## W. A. SADD, Chairman

Gentlemen of the Convention: There were two questions which came to the attention of the committee during the first part of the year.

“First, the matter of mutual savings banks joining the Federal Reserve System; and, second, the use of the word ‘Savings’ by national banks in states where the use of such word is restricted to mutual savings banks.”

President Lersner, Mr. Saul, Mr. Harrison and Mr. Sadd met on the mezzanine floor, New Willard Hotel, Washington, D. C., 10:30 o'clock Friday, November 22, 1918, in advance of an appointed conference with the Federal Reserve Board at 2.30 o'clock in the afternoon.

## MEMBERSHIP IN FEDERAL RESERVE SYSTEM

The question of membership of Mutual Savings Banks in the Federal Reserve System was fully considered. It was decided to suggest that a reserve of 3 per cent. of deposits be deposited with the Federal Reserve Bank by a mutual savings bank, to be in Government securities; that in proposing an amendment to Section IX of the Federal Reserve Act a deposit of funds, at interest, perhaps, would be more desirable than the actual buying of stock; that the mutual savings banks be made associate members. It was decided that Chairman Sadd present the matter to the Board.

At 2:30 p. m. Messrs. Lersner, Sadd, Saul and Harrison conferred with Judge Elliott, Counsel for the Federal Reserve Board, and Governor Harding.

After considerable discussion Governor Harding proposed to Judge Elliott that he draft:

"1. An amendment to Section IX of the Federal Reserve Act, providing for membership in the Federal Reserve System of Mutual Savings Banks; that in lieu of purchasing stock, 3 per cent. of surplus be deposited in the Federal Reserve Bank at  $4\frac{1}{2}$  per cent. interest, such interest to be paid at the time of the payment of dividends on Federal Reserve Bank stocks; with the added provision that withdrawal of such deposits be subject to a demand notice of six months, which would be tantamount to a purchase by a State Bank of stock of the Federal Reserve Bank.

"2. An amendment to Section XIX providing for a reserve on savings deposits of 3 per cent.; one-third of which shall be cash, and two-thirds shall be in Government securities. It was explained that this would obviate the necessity for amending state laws specifically providing for the purchase of stock of Federal Reserve Banks. As a consequence, it would merely require an amendment to state laws providing for membership of mutual savings banks in the Federal Reserve System, in certain states."

The conference was most satisfactory. Both Governor Harding and Judge Elliott took a very favorable interest in our proposition, and requested us to aid in urging legislation through the machinery at our command.

It was suggested at the meeting by the representatives of the Federal Reserve Board that no publicity be given the matter until Judge Elliott had framed the amendments. Secretary Harrison maintained as close contact as the mails permit with Counsel Elliott's office.

Nothing was done until January 7th, when the bulletin of the U. S. Council of State Banking Associations was issued and sent to every state bank in America. As soon as the bulletin came to Secretary Harrison's attention, Secretary Harrison through the Federal Legislative Committee caused to have printed and issued the same day the bulletin containing extracts from the bulletin of the U. S. Council, which contained the proposed amendments to the Federal Reserve Act, the substance of which was discussed at the conference in Washington on November 22d. Naturally, a misunderstanding arose between the U. S. Council and the Savings Bank Section. E. G. McWilliams, assistant to the president of the U. S. Council, apparently maintained close contact with the State Bank Section, but did not get in touch with the Savings Bank Section after the issuance of the bulletin.

Objection was made in a courteous way to Governor Harding and to President Booth of the U. S. Council. The following letter was written by Governor Harding to me under date of January 28th:

"I have your letter of the 25th instant, and note what you have to say regarding the bulletin which was sent out by Mr. McWilliams, representing the United States Council of State Banking Associations, in which matters were mentioned which were discussed at the conference I had with members of your committee.

"Some time after this conference was held, Mr. M. C. Elliott, our General Counsel, discussed formally with me the question of whether the Board should recommend the establishment of savings departments, but it was determined that the matter had better go over for the present, in order not to jeopardize the passage of the pending Phelan bill. Mr. John S. Drum, of California, who had been in Washington for several months as a member of the Capital Issues Committee, had manifested great desire on several occasions to have savings departments expressly authorized for national banks, stating that in his opinion if this were done a number of California state banks would join the national system. He had discussed this subject on several occasions, not only with me but with Mr. Hamlin, and it seems that he discussed the matter also with Mr. McWilliams. Some time later Mr. McWilliams submitted to the Board a form of circular which he stated he proposed to send out to the state banks. As the matter contained therein had been discussed quite freely between members of the Board and Mr. Drum, and by him with others connected with the Council of State Banking Associations, the Board felt that it could not raise any objection to the proposed circular, especially as Mr. McWilliams stated to Mr. Elliott that the circular, before mailing, had been brought to the attention of Mr. Harrison or somebody representing the American Bankers Association.

"The circular does not commit in any way to the proposition, but states merely that the matters referred to have been laid before it for consideration. Had your committee desired to send out a circular to savings institutions, I have no doubt that the Federal Reserve Board would have approved of your doing so. There is, of course, no objection now to your presenting this matter direct to the Savings Bank Section of the American Bankers Association, and I might say that in matters which relate particularly to the Savings Bank Section, the Board would expect to deal with it rather than with any other council or association."

On February 5th Judge Paton was requested to draft a bill to amend sections IX and XIX of the Federal Reserve Act to be presented to the

Senate and House so as to secure a test of the measure and with no idea of it passing during the session of Congress. Senator Calder of New York introduced the bill in the Senate, and Congressman Moon of Tennessee introduced the bill in the House; both bills, of course, were the same.

In order to secure the furtherance of the bill by the Federal Legislative Committee of the American Bankers Association, Judge Paton submitted the substance of the bill to a referendum vote of the Federal Legislative Council of the A. B. A., with the result that 61 members answered, which seemed to both Judge Paton and Chairman Newcomer of the Federal Legislative Committee, a number sufficient to determine the question. The result of the vote was 37 in favor, and 24 not in favor, thereby placing the general association behind the measure.

The question was then submitted to the mutual savings banks of the country. A number of answers were received and the general opinion together with a few of the representative answers were included in an article published in the *Journal* of the A. B. A. for April. The opinion, therefore, seems to be divided as to the desirability of the Section urging such legislation. The Committee on Federal Legislation is more or less in a quandary as to what further action to take. There are arguments for and against entrance of the mutual savings banks in the Federal Reserve System; but if the majority of the mutual savings banks do not desire such legislation, even though it is simply permissive legislation, it is not reasonable for the Federal Legislative Committee to further act in the matter.

The Massachusetts Savings Banks through their Association have voted unanimously against going into the Federal Reserve System. The same action has been taken by the New Hampshire Savings Banks.

At the spring meeting of the Executive Committee it was unanimously decided to withdraw any proposed legislation with relation to permitting mutual savings banks to become members of the Federal Reserve System. Since the Sixty-sixth Congress convened there were several bills introduced which have been carefully watched.

#### PROPOSED LEGISLATION

On May 26, 1919, Senate Bill S-800 was introduced by Mr. Owen of Oklahoma, which proposed to create a depositors' indemnity fund under the control of the Federal Reserve Board to indemnify depositors in member banks in event of the failure of a bank. Fund to consist of proceeds of tax on national bank circulation beginning January 1, 1919, until 1 per cent. of deposits of member banks have been accumulated. Fund to be kept at that amount. It has not as yet come out of committee.

On May 20, 1919, Mr. King of Utah introduced in the Senate Bill



S-30, which proposed to establish in the Treasury Department a Bureau of Export of Savings in charge of director of the export of savings appointed by the President at a salary of \$5,000 per annum, with such assistants as the director may deem necessary. The bill is described as follows:

"The bureau is given general supervision and regulation of business of transmitting and forwarding out of U. S. to any foreign country sums of \$100 or less, or sums of \$100 or less made up into an amount exceeding \$100, receiving directly or indirectly for purpose of transmission from persons other than citizens of U. S. residing in U. S., or territories or possessions. State laws on subject, where not in conflict, are unaffected.

"The bill provides that after April 1, 1919 (which date was passed when the bill was introduced), it shall be unlawful for any person, firm, unincorporated association, or corporation, to begin or continue the business specified without having received from the Director a license to carry on said business for the term of one year, renewable with consent of the Director; and no person, firm, etc., engaged in such business at time act passed shall continue therein for more than 60 days after its passage without obtaining license. Compliance with the following conditions precedent is required before the issuance of a license. First, applicant must file with Director, a duly subscribed and sworn certificate stating that applicant, if an individual, is a citizen of the United States, or if a firm or unincorporated association, that every member thereof is a citizen, or if a corporation, that at least 70 per cent. of the stock is held by citizens, and that all the officers and directors are citizens, also location of principal office. Second, applicant must pay into U. S. Treasury as first payment of an annual license fee, \$1,000 in cash, and a like additional sum for each branch office or agency. Third, where not a bank or trust company duly organized under U. S. or state laws, applicant must deposit in U. S. Treasury, or in duly designated depositories, as security for the purpose hereinafter set forth, in cash or in such securities as hereinafter specified, the following amounts: Where applicant shall have been continuously engaged in the business described throughout the year 1913, such amount shall be equal to 10 per cent. of the average monthly aggregate amount of moneys received for transmission in sums of \$100 or less in 1919 by applicant in such business, but value of cash and securities deposited shall in no case be less than \$10,000. Where applicant not continuously engaged in business described throughout the year 1913, a minimum deposit of \$10,000 in cash or securities is required, to be increased but not diminished within three months to an amount equal to 10 per cent. of the average monthly aggregate amount of

moneys received for transmission in the first two months subsequent to granting license. Fourth, if applicant is a duly organized bank or trust company, and the Director deems the security afforded by organic law insufficient for protection of persons for whom money transmitted, Director shall require additional security of same character and amounts as provided in case of an applicant other than a bank or trust company. Provision is made for reports of license to Director. Also registered bonds of U. S. or any state may be deposited in lieu of cash; or registered bonds of any municipality in U. S. if approved by director. The deposits of security are constituted a trust fund for faithful performance of the licensee's duties to persons from whom moneys received for transmission, and in event of bankruptcy or assignment for benefit of creditors of licensee claims of such person shall have priority over claims of all other creditors of licensee with respect to such trust funds. Provision is made giving U. S. District Court concurrent jurisdiction of suits arising under act. Licensees are prohibited from soliciting, by advertisement or otherwise, moneys for transmission. The Director is empowered by written notice to the licensee to revoke any license for cause. The situation where a licensee ceases to do business is regulated and provision made for ultimate disposition of the securities. The license fees paid constitute a fund which covers expenses of the Bureau and any balance may be devoted to "aiding the States in Americanization measures." The books and accounts of licensees are open for inspection of Director and agents. Licensees are required to forward moneys received for transmission within five days after receipt. The Secretary of the Treasury is directed to provide suitable offices, etc., for the Bureau, and upon the recommendation of the Director to appoint such office force as may be necessary; and the sum of \$50,000 is appropriated to carry out the provisions of the Act. The bill provides a penalty of a fine of not more than \$2,000, or imprisonment for not more than two years, or both, for violation of any of the provisions of the Act."

As more or less supplemental to this bill, Mr. King of Utah introduced S-2597 in the Senate, July 23, 1919, which proposed to "prevent the artificial stimulation of immigrant savings, through propaganda, foreign subsidies and the agencies of foreign governments. Prohibits persons, corporations, etc., who receive directly or indirectly any subsidy or financial support from any foreign government from engaging in the business of transmitting money or credits received from persons of foreign birth, resident in the United States, whether in the form of domestic currency, foreign exchange or otherwise. Prohibits postal savings banks or other government banks of foreign powers from maintaining branches

or agencies in the United States or engaging in the United States the business of transmitting such money or credits. Prohibits individuals, firms or corporations engaged in interstate or foreign commerce from doing business or maintaining an office or agency in the United States, and also persons employed in the consular or other governmental service of any foreign power from soliciting, requesting or inducing any person of foreign birth, residing in the United States, to export or transmit moneys or credits belonging to such persons out of the United States to any foreign country. Penalty for violation is imprisonment not exceeding one year or fine of not more than \$5,000, or both."

These two bills would require a greater amount of influence in order to assure their passage. There is a strong opposition to the bill on the part of those primarily interested in the export of savings and in foreign exchange. There is no doubt, however, that some plan should be devised to curtail the increasing amount of savings exported through the efforts of foreign agents inducing immigrants to export their savings.

#### PROPOSAL FOR "HOME LOAN" BANKS

On June 6, 1919, Mr. Calder, of New York, introduced S. 1469, which proposed to create a Federal Home Loan Board and home loan banks for the purpose of aiding in financing the construction of homes. Act to be known as "The Federal Home Loan Act." Established in Treasury Department a bureau to be known as the Federal Home Bureau, under supervision of the Federal Home Loan Board; latter consisting of five members, including Secretary of Treasury and four members appointed by President of U. S. and confirmed by Senate, at annual salary of \$10,000. One member to be designated by President as Home Loan Commissioner to be active executive officer of Board.

Provides for division of continental U. S., except Alaska, into eleven home loan bank districts, designated by number, and for establishment by the Board of a Federal home loan bank in each district; each bank to include in its title name of city in which located, and each bank may establish branches within its district. Whenever ten or more building associations located in a district with aggregate assets of not less than \$5,000,000 and eligible under the Act (no building association is eligible to membership unless under supervision of state authorities, or like supervision of Federal authority), shall associate themselves together, they may organize the Federal Home Loan Bank for their district, after obtaining certificate of home loan commissioner of compliance with provisions of Act. Each bank to begin business with a paid-in cash capital of not less than \$100,000 in shares of \$1,000 each. Only building associations to purchase or hold said stock. Provides details for organization of bank and issuance of charter by

Home Loan Board upon filing and approval of organization certificate. Directors of each home loan bank to consist of nine members, six to be known as local directors, chosen by representatives of building associations members of bank, and three to be known as district directors, appointed by Home Loan Board; one of latter, designated by the Board, to be Chairman of Directors. All home loan banks may be designated by Secretary of Treasury as depositories of public money, except receipts from customs, and employed as Government financial agents; but no Government funds so deposited to be invested in home loan bonds.

Home loan banks are given power, subject to named restrictions, to issue and sell home loan bonds, when approved by Home Loan Board, and redeem, cancel and retire same at or before maturity. To receive and deposit in trust with home loan registrar of district first mortgages given to and owned by members of bank, such mortgages to be held by registrar as collateral security for home loan bonds. To acquire and dispose of real and personal property in transactions of its business parcels of real estate acquired in satisfaction of debts, etc.; but bank may not hold title to realty so acquired longer than five years, without permission of Home Loan Board. Such banks are given further power to borrow money; to buy and sell U. S. bonds or other evidences of Government indebtedness; to accept deposits of current funds from members of bank, but to pay no interest; to make loans from capital stock or current funds deposited with it and from funds derived from sale of home loan bonds, to member associations, on conditions prescribed by Home Loan Board; to collect from each member association, as commission for services rendered, not exceeding one-half of one per cent. per annum, upon balance due from each member to bank for funds loaned by said bank, said commission to be in addition to interest charge and amortization payment by member on said loan. Such banks are forbidden (1) to accept deposits of current funds except from its members or to transact any business not authorized by act; (2) to accept any mortgage except first mortgages, and such mortgages as may be taken as additional security for existing loans; (3) to issue home loan bonds in excess of twenty times amount of its outstanding capital and surplus, or to advance to any member an amount exceeding twenty times the amount of its capital owned by such member; (4) to demand or receive, under any form, any commission or charge not specifically authorized by act. Federal Home Loan Board is empowered to organize and charter Federal home loan banks; to review and alter rate of interest upon bonds to be issued; to grant or refuse to banks authority to make any specific issue of bonds; to require reports of operation and condition of all home loan banks; to prescribe form and terms of home loan bonds, and of all surety bonds required under Act; to require banks to pay any other

bank their equitable proportion of any sums advanced by said bank; to pay coupons of any other home loan bank; to suspend or remove for cause any district director, registrar, or other officials appointed by Board; to exercise general supervisory authority over such banks, and such incidental powers as are necessary for purposes of Act.

Every member must own at least one share of capital stock of Federal Home Loan Bank, but shall not hold shares to an amount in excess of 10 per cent. of assets of such member. Each member shall be responsible equally and ratably and not one for another for all contracts, debts and engagements of said bank to extent of amount of its shares therein at par value of \$1,000, in addition to amount invested in such shares. Such shares are not transferable, except that a member not obligated to his home loan bank may transfer such shares to another member, or to another building association, with approval of Home Loan Board; or any member may retire from membership and receive back sums paid for its shares upon one year's notice to Home Loan Board, provided it is not indebted to said bank; and provided no such withdrawal will be permitted which will reduce the total amount of outstanding capital of the bank below \$100,000. Provides detailed steps for procurement of loans from bank by members. Designates necessary steps for issue of home loan bonds by registrar, and specifies the form and denominations of such bonds, and periods for which they shall run. Provides in detail for withdrawal and exchange of mortgages deposited with Home Loan Registrar as collateral. Provides in detail as to amortization and other payments on principal of indebtedness of members to home loan bank, and disposition of trust fund thus created. Detailed provisions are made with respect to reserves and dividends of home loan banks. Exempts home loan banks and member associations, including capital and reserve or surplus and income derived therefrom, from Federal, state, municipal and local taxation, except taxation upon real estate held by home loan banks or member associations.

Provides that Federal Home Loan bonds shall be lawful investments for all fiduciary and trust funds, and security for all public deposits; and members of Federal Reserve System may buy and sell such bonds. Provides for appointment of a Home Loan Registrar for each district, to receive applications for issue of bonds and other services; for appointment of Home Loan Bank Examiners, subject to same requirements and penalties as national bank examiners, and prescribes their duties. Provides steps to be taken for dissolution of, and appointment of receivers for, insolvent member associations, and for like proceedings in cases of insolvent home loan banks.

Provision is made for adequate penalties for violation of provisions of Act. \$100,000 is appropriated to carry into effect provisions of Act. Amends Revenue Act of 1918 exempting \$40,000 real estate mortgage

loans without limitation. Provides that if any part of Act is declared invalid by a court of competent jurisdiction, such judgment shall not invalidate remainder of Act.

When this bill got to the committee, effective opposition was made through the aid of the Committee on Amortization of Mortgage Loans and the fine work of Chairman Pulley in respect thereto. As a result Mr. Calder, on July 15th, introduced another bill in the Senate, S-2492, which was substantially the same as S-1469 with the exception of the title; Federal Building Loan, instead of Federal Home Loan Act; that it fails to provide for Federal Home Loan Board, and substitutes in lieu thereof, Superintendent of Federal Building Loan Banks, with substantially the same duties. Requires banks to carry a reserve account of 5 per cent. (instead of 25 per cent. in former bill) until such reserve shall show credit balance equal to 10 per cent. (instead of 20 per cent.) of the outstanding capital stock. Also appropriates \$50,000 (instead of \$100,000 as in former bill) for organization purposes.

Similar bills were also introduced in the House. Effective opposition was brought against this and Senator Calder very recently proposed a measure which will make available for home building \$4,000,000,000 or more of Government funds. All of such legislation is dangerous and unnecessary. The argument is brought forward that the farmers are given the privilege of borrowing from the Government and there is no reason why the laborers in the city should not have the same privilege. This argument, of course, has great strength among those representatives whose constituents are largely laborers. However, it is no reason to establish another organization in Washington which will add to the unfortunate condition in which the country seems to be placed as a result of the operation of the Federal Farm Loan System.

On June 27, 1919, Mr. Fitzgerald of Massachusetts introduced in the House Bill No. H. R. 6815, which proposed to provide for a loan of \$50,000,000 for the building of small homes to be dispensed by the Federal Farm Loan Board throughout the twelve Federal Land Banks under regulations now obtaining in connection with moneys loaned for purchase of agricultural lands, the amount of loan to any one borrower not to exceed \$5,000 nor be for less than \$500. It may be presumed that the new bill which will take the place of the Federal Building Loan bill will be along such a line.

On June 12, 1919, Mr. Sheppard of Texas introduced into the Senate S-1677, which proposed an industrial savings act to increase utility of Postal Savings Bank, encourage savings among the people and secure largest returns consistent with adequate security. Makes the President's Cabinet an Industrial Savings Board to control the existing Postal Savings Bank. Removes all limitations on amount of

deposits and makes postmasters, letter carriers and employees serve the people through the Postal Savings Bank as they now serve them for letters, money orders, registered letters and parcel post. Provides that not to exceed 25 per cent. of deposits be invested in Government bonds and balance of deposits, with the exception of a working reserve, be loaned at not exceeding 5 per cent. on adequate security. Bill contains detailed provisions as to manner of loaning. Provides for issues of certificates of deposit, both bearer and registered. Permits checking accounts by depositors who carry an average balance over \$500 subject to regulations. Authorizes Secretary of Treasury to deposit in the Postal Savings Bank without security; also authorizes banks to make deposits in Postal Savings Bank and count its certificates of deposit as part of their reserve. Provides that post offices in certain cities shall be designated as savings banks of issue and redemption of certificates of deposit. Twelve District Banks covering U. S. shall act as clearing and reserve banks for banks of issue and redemption. A National Central Postal Savings Bank to be organized in Washington, D. C. Bill contains other provisions relative to smaller post offices keeping certificates of deposit on hand, allowing existing savings and other banks to be agents of the Postal Savings Bank, relative to loans on real estate collateral and loans without collateral, etc.

This bill has not secured any definite headway. It is expected that the bill will not be reported out of the Committee on Post Offices and Post Roads, to which it was referred.

We may expect considerable proposed legislation in the future of definite interest to savings banks and as a result close watch should be maintained. With the new plan for the Sections to direct their own Federal legislation our efforts in this direction of necessity will be increased.

Due to savings propaganda and the need for greater savings, there will be many attempts to introduce new and untried facilities for accumulation of savings and for the investment of those savings. Hence, in order to maintain the highest degree of stability it is essential to keep careful watch in both Houses of Congress as to what may be proposed therein.

#### SPECIAL INTERESTS OF STATE CHARTERED BANKS

Your committee has given serious consideration to the conference of state chartered banking institutions sections formed at the time of the May meeting of the Executive Council. This conference will not have official standing until certain amendments to the by-laws of the Trust Company, Savings Bank and State Bank Sections are adopted. The purpose of the conference is to replace the U. S. Council of State Banking Associations, the object of which was to represent and to protect the interests of state chartered banking institutions.

The legislative proposals which are considered by the above described conference for action of necessity must have the cognizance, officially, of the sections of the Association representing state chartered banking institutions so that, in the event legislation is proposed which is of primary interest to one of the three state chartered banking institutions sections, that section independently could take care of it. In such event it would be stronger policy to secure the backing of the entire American Bankers Association regardless of Sections. In other words, such legislative proposals which are of particular interest to state banking institutions and to which national banks would be opposed, may be considered for action by the conference of representatives of the Sections representing state chartered banking institutions, and even then, upon the full information in the hands of the General Counsel of the Association, who, as a matter of policy, should be fully cognizant of all legislative activity concerning the Association, its departments, committees, or any of its sections. Such a policy would be in the interests of unity, and the stability of the Association's influence.

Your committee is opposed strenuously to any action on the part of any section, conference, or committee, of the Association, which would even tend adversely to affect the prestige and influence of the American Bankers Association.

We believe, therefore, that with the creation of the conference above described, the functions of such conference should be well defined and that those functions should not attempt to usurp the functions of the Committee on Federal Legislation of the American Bankers Association. For if such usurpation ever exists it will lead to conflict within the Association and a consequent loss of prestige. A letter was sent out by Chairman Booth, of the Conference, to members thereof referring to Sheppard Bill No. 1677, which has already received attention by the Committee on Federal Legislation, and was no new matter for attention. It is a bill in which all banks are interested and not alone the Savings Bank Section of the American Bankers Association. The letter was in the following words:

"Enclosed you will find copy of Senate Bill 1677, which was introduced by Mr. Sheppard on June 12, 1919, and referred to the Committee on Post Offices and Post Roads.

"This bill would create an Industrial Savings Board to take over the control of the existing Postal Savings System.

"The bill provides for the removal of all limitations upon amounts which may be deposited with Postal Savings Banks, and authorizes checking accounts for those depositors who maintain an average balance of \$500 or more.

"The bill also provides that all banks in the United States may deposit their funds in Postal Savings Banks and Certificates of



Deposit issued therefor may be counted as part of legal reserve.

"Under this bill the Postal Savings Banks may make loans and issue various forms of Certificates of Deposit, both in large and small amounts.

"There is also a provision that when the total deposits in Postal Savings Banks amount to \$1,000,000,000, loans to farmers and other producers may be made.

"In addition to these important provisions, the general powers and functions of the Postal Savings Banks are greatly enlarged by this bill.

"It would seem that every bank in the country is vitally interested in the proposals embodied in the above bill.

"Your early advice as to the procedure of our Committee of Nine in this connection will be greatly appreciated.

"Very truly yours,  
WILLIS H. BOOTH,  
*Chairman.*"

Sheppard Bill S. 1677 was brought to the attention of the members of the Federal Legislative Council and others by the Committee on Federal Legislation of the Association in their Digest of pending legislation issued on June 23, 1919, and has since been closely watched, both by your Committee and by the Committee on Federal Legislation of the Association, and at the time Chairman Booth's letter was sent out it had not been taken up by the Committee on Banking and Currency to which it was referred. Our Committee has been many times advised that it is the policy of the Committee on Federal Legislation to watch all such bills—there are a number of like character which are introduced in every new Congress but never get anywhere—but to "let sleeping dogs lie," and stir up no agitation concerning them so long as there is nothing to be feared. This policy was being pursued with reference to the Sheppard bill, which affects particularly the savings banks. Mr. Harrison, secretary, has been in consultation with General Counsel Paton as representing the Committee on Federal Legislation, and both had reached the conclusion the bill had little chance of passing and that the best policy would be to let it alone and stir up no agitation against it, unless something subsequent should develop. Everything necessary had been done, therefore, concerning this bill by the Committee on Federal Legislation of the Association in whose exclusive charge the bill rested, and there was no room for action or agitation thereon by any other committee.

The point we desire to emphasize in this connection for the good of the entire Association is that independent action of this kind is a usurpation of the functions of the Committee on Federal Legislation, and that it will lead to confusion and lack of harmony if more than

one committee is working at cross purposes upon the same subject. This is independent action upon the Sheppard bill, especially without the knowledge of the Savings Bank Section which would be most particularly affected by the bill, and without the knowledge of the Committee on Federal Legislation of the Association which had the bill in charge, would seem an entering wedge toward independent action which, if not checked, may be followed by unauthorized action on other bills and this would create diversity of effort and weaken the influence of the Association in legislative matters which is now powerful because of the effective machinery of the Committee on Federal Legislation of the American Bankers Association.

Amendments were agreed upon to be presented at the next convention giving each Section the right to go it alone in legislative matters of special interest to a particular Section, in which event the Committee on Federal Legislation should keep hands off; but this is a different proposition from that of an independent committee created by three of the Sections taking on functions which, under the Constitution, are placed in the exclusive charge of the Committee on Federal Legislation.

The State Bank Section has proposed to amend by-law six of the American Bankers Association by adding thereto the following:

The Executive Committees of the Trust Company, Savings Bank and State Bank Sections may each appoint three members from their respective Sections who shall constitute an Advisory Committee of Nine to meet in conference upon legislative matters of special interest to said Sections. The scope and function of such Committee of Nine shall be limited to advice and recommendation to their respective Sections upon such matters, and action upon matters recommended shall be subject to the provisions of Section 16 of Article V of the Constitution.

Your Committee recommends the approval by the Savings Bank Section of this proposed amendment.

The records of the Savings Bank Section fail to evidence any lack of effectiveness of the American Bankers Association in support of proposed Federal legislation pertaining to the interests of the savings banks. The General Counsel's office has always expeditiously, courteously and effectively handled every request made upon it by the Savings Bank Section.

While your Committee is in entire sympathy with the formation of the conference as described for the consideration of Federal legislative proposals of mutual and peculiar interest to state chartered banking institutions, nevertheless, your Committee finds it desirable and advisable that the functions of the conference be thoroughly established, and that those functions shall be co-ordinated with the functions of

the Federal Legislative Committee of the American Bankers Association. That care should be taken in independently acting upon legislative proposals that might be more effectively handled by the Federal Legislative Committee of the Association, and while of particular interest to state chartered banking institutions, yet not adverse to the interest of Federal chartered banking institutions.

Your Committee appreciates the excellent co-operation of all other committees of the Section, as well as the help and advice which has always been forthcoming from the office of General Counsel Paton.

## REPORT OF COMMITTEE ON SAVINGS

JOHN J. PULLEYN, Chairman

Gentlemen of the Convention: As a result of the armistice the committee on savings did not commence its real activities until December. Conferences, however, were held by members of the committee with war savings committee representatives on November 5th, 7th and 9th, but the outcome of these meetings was nil. The war savings authorities seemed to be in a quandary as to what course to pursue in their national campaign. These conferences were the result of an action taken by the eastern members of the executive committee which met in New York on Tuesday, October 29, 1918, in the library of the Association, at which it was determined not only to co-operate with the war savings committee at Washington, but to urge savings in every possible way so as to perpetuate war savings as peace savings. Several articles were issued by your committee and printed broadcast.

On January 17th your chairman sent to the banks, members of the section, a letter urging the encouragement of thrift and advocating the following practices:

1. Encourage small Liberty Bond owners to take loans in case of need at your institution on their notes secured by their Liberty bonds. This, the law of your state permits you to do.

2. Induce the borrower to open a savings account and build it up to pay off the loan.

3. Advise all small bond owners that the sure test of the value of any stock offered in exchange for a Liberty Bond is to ask the advice of their banker.

4. Offer to give your advice freely to anyone approached by promoters.

5. Reach the workers of your community through their employers and urge them to save a sure and fixed amount each week.

6. Establish school savings societies in your community.

Plans covering the details of each suggestion were prepared and offered to the banks. About 200 banks responded. At the same time the

material as well as the suggestions received noteworthy publicity. The editorial comments were most favorable. The need for such a campaign was made manifest by the information which came to the committee that pawnshops and nefarious loan brokers were making 50 to 70 per cent. loans on \$50, \$100 or more Liberty Bonds, charging 3 per cent. per month interest thereon. Such loans were seldom paid off. Also, great numbers of speculators were doing a thriving business in the purchase of partial payment certificates of Liberty Bond subscriptions, paying 50 per cent. of the value of the payments already made. Venders of highly speculative and worthless stocks were taking tens of millions of Liberty Bonds from small, uninformed holders in exchange for scraps of paper promising large returns. The assertion was made that if the banks could keep the Liberty Bonds in the hands of small subscribers of the savings bank depositor type, they would receive an annual interest over three hundred millions of dollars. It was estimated that in territory tributary to the small cities where savings banks are located, over \$500,000 in Government obligations were in the hands of new savers in Liberty Bonds and war savings stamps; while in the territory tributary to the cities where larger institutions are located this amount would reach several millions.

Every occasion was used in order to urge savings; so that through savings and work the huge debts of the nation as well as individuals would be liquidated. This thought was brought to the attention of those in authority.

It is gratifying to observe how the principle is being spread throughout the country at a time when the practice of thrift is so imperative.

At a meeting of the Executive Committee held in New York January 25th, our committee presented to the meeting the following telegram from Secretary of the Treasury Glass:

"Please extend to the members of the Savings Bank Section of the American Bankers Association at their meeting January 25th, the appreciation of the Treasury Department for the assistance which they have rendered the Government during the Liberty Loans and War Savings campaigns, and say that the Treasury Department will welcome the continuance of their active co-operation of the same nature during nineteen-nineteen. Obligations incurred by the Government in order to win the war at the earliest possible date, and which undoubtedly helped to terminate the war much sooner than might otherwise have been the case, must be liquidated. This can be accomplished only by levy of taxes and by the savings of the people converted into investments in Government obligations issued for that purpose. Savings banks as a whole have not suffered loss of deposits as a result of war financing. On the contrary, gains have been recorded and I am informed that the deposits in savings banks are now rapidly increasing. I am con-

ident that the savings banks of the country will patriotically assist in the great task of helping to liquidate the war bills of our Government and of encouraging the habit of thrift amongst the people, which in turn should reflect itself in larger deposits and consequently increased prosperity for savings institutions."

As a result of this telegram the following resolution was unanimously adopted and telegraphed to Secretary Glass:

*"Whereas, The practice of consistent saving has widely increased as a result of the various Government loan campaigns incident to the war, and*

*"Whereas, It is imperative that such practice continue to increase in order to insure the proper absorption of future Government Victory loans, and to promote lasting individual prosperity and domestic tranquility, and*

*"Whereas, The savings banks of the country with their 26,500,000 depositors, representing the substantial and thrifty citizenry of the nation, are in paramount position to encourage and to promote the habit of consistent saving, and*

*"Whereas, The Treasury Department of the United States has launched a nation-wide effort to induce greater thrift through the sale of savings stamps and otherwise;*

*"Resolved, That the Savings Bank Section, American Bankers Association, through its Executive Committee, representing the savings interests of the 19,000 banks, members of the Association, at a meeting held in New York City, January 25, 1919, pledges its hearty support and earnest co-operation to the Secretary of the Treasury, Hon. Carter Glass, in the conduct of the country-wide campaign of thrift and savings inaugurated for 1919 under his direction.*

*"To this end the Savings Bank Section will stand ready at all times consistent with its purpose, to respond to any call made upon it by the Secretary of the Treasury.*

*"The Executive Committee also gratefully appreciates the sentiments of the Hon. Carter Glass, contained in his telegram transmitted through and submitted by Pierre Jay, Federal Reserve Agent at New York.*

*"Further Resolved, That a copy of this resolution be transmitted by wire to the Secretary of the Treasury."*

Following this meeting and upon the approval of the committee, the Section attempted to organize a campaign of savings in New York City, and if such campaign should succeed, to spread it throughout the country. Committees were appointed by the groups of the Savings Banks Association of the State of New York representing the five boroughs of the city of New York.

## BOOKLETS TO URGE SAVINGS

Thereafter, a number of meetings of this joint committee were held in the office of the Section. As a consequence, two intensive campaigns for a three months' period each in New York City were tentatively proposed. A plan was prepared by the Secretary, but at a meeting of the savings bankers called upon to raise the necessary funds for the conduct of the campaign, effective opposition to the movement was introduced and favorable action was indefinitely postponed. However, the material prepared for this campaign in the form of booklets was offered at cost to the members of the Section. Arrangements were made with William Green, Inc., printers, to print the Liberty-Victory Bond booklet entitled "Victory-Liberty Bond Facts" in quantities.

Letters were sent to the members of the Section March 24th and April 15th, offering them this service. Seventy-five banks responded with orders which resulted in the distribution of about 100,000 of these booklets. Such service was much appreciated as evidenced by letters received by the committee.

Another booklet was offered to mutual savings bank members of the Section, entitled "Saving Money to Save Your Job," being a story of the course taken by savings bank funds. This booklet is becoming increasingly popular. Already 75,000 have been distributed. R. F. Ayers, of New York, is the author of the book. It is being printed by Gibbs Press, Inc., New York. No compensation is being paid to Mr. Ayers, and the booklet is distributed at cost. Hence, the Section makes no profit on sales to the banks. The cost of soliciting sales is absorbed in the printing costs. Inasmuch as a greater distribution in the future may be assured through the Savings Banks Association of the State of New York, the right of publication was transferred from the Savings Bank Section to that Association. It is expected that this booklet will be utilized in a school campaign next fall in New York and New England.

Throughout the year an effort has been made to aid the war savings campaign in Washington. At the spring meeting of the executive council, American Bankers Association, under the auspices of your committee a thorough discussion was had of perpetuating war savings as peace savings. War savings representatives from Washington spoke and there were several addresses by men prominent in the American Bankers Association; and while no action was taken at this meeting, sentiment was well crystallized in favor of continuing the campaign of thrift.

The committee recommended to the banks the purchase of Bolton Hall's book on "Thrift." We secured from the author the right to permit the banks to use any part of the publication in their adver-

tising. Two hundred banks have been supplied with copies of this book. Another service which was much appreciated.

#### THE "ADVANCEMENT OF THRIFT IN AMERICA MOVEMENT"

Your committee earnestly recommends a campaign throughout the country to be known as the "Advancement of Thrift in America Movement," through the established channels of the American Bankers Association, and requests an appropriation of one thousand dollars for carrying on a systematic effort through the Secretary's office to urge the saving of money in every consistent way to the end that the banks of the country will further contribute to the financial stability of the nation.

### REPORT OF COMMITTEE ON LIQUID INVESTMENTS

SAMUEL H. BEACH, Chairman

Gentlemen of the Convention: Soon after the Chicago convention the following program of the activities of your committee was prepared:

1. To request every mutual savings bank and all stock savings banks in such states as restrict investment of savings funds, to designate one man in each institution with whom we could communicate relative to a campaign to urge investment of a certain proportion of their funds in liquid securities.
2. To have General Counsel Paton draft a model bill for suggestion to the Committee on State Legislation to various state bankers associations for presentation to their respective state legislatures.
3. A definite plan of publicity through banking and financial periodicals, as well as various publications of the Section.

Under date of November 12th the Chairman of your committee wrote the following letter to the members of the committee:

Gentlemen: Although notified some time ago of my appointment as chairman of the above named committee I have deferred until now communicating with the members of the committee, awaiting further knowledge of its functions and activities which I expected to and did receive at a conference called by President Lersner at association headquarters in New York on October 29th, a copy of the minutes of which I herewith enclose.

The work of this committee during 1918 has largely been formulative and culminated in a very interesting discussion at the annual meeting in Chicago, led by retiring Chairman S. Fred Strong as to the necessity for savings banks to invest a more adequate proportion of their funds in short term securities.

A printed pamphlet, containing in full Professor Kemmerer's exhaustive paper upon the subject and the discussion following as well as much statistical information shown in attractive and convincing form, has been mailed to each member of the Savings Bank Section and I herewith enclose a copy of same for your personal use and reference.

It was decided at the conference meeting to change the name of our committee to Committee on Liquid Investments in order that the name might cover the full scope of the committee's activities and hereafter the committee communications will be sent out under the new name.

Owing to the attractive rate of interest borne by the government's certificates of indebtedness, it has thus far been difficult to make much headway toward inducing savings banks to purchase bankers acceptances; and as at least one more liberty loan is sure to be floated with undoubtedly a forerunner of similar certificates of indebtedness, the same condition will probably obtain for at least the first half of the coming year.

But education, along the line of, the form of, and manner of, handling liquid investments, is very much needed whether the savings banks are able to alter their holdings just at this time or not, and the full effort of the members of our committee should be devoted to giving publicity whenever and wherever possible to the actual advantage which would accrue to all savings banks by a largely increased holding of short term securities.

Feeling assured of the hearty co-operation of all of the members of the committee, I am,

Very truly yours,

SAMUEL H. BEACH, *Chairman.*

#### LEGAL POWERS TO INVEST IN ACCEPTANCES

The primary step in the direction of greater liquidity of savings bank assets was the passage of state laws permitting savings banks to invest in bankers acceptances and trade acceptances endorsed by a bank. Most every state in the Union either had some such law in operation or it was not necessary for any amendment to the law to be made because of the loose construction of the laws pertaining to savings banks investment.

The states of Maine, New Jersey, Pennsylvania, Minnesota, Wisconsin, Iowa and Washington required permissive legislation. Connecticut laws permitted only three per cent. of deposits to be invested in acceptances. The California law respecting acceptances seemed inadequate. After determining this, the chairman of your committee requested General Counsel Paton to draft a form of amendment and the following was prepared:



## SUGGESTED AMENDMENT TO INVESTMENT LAW OF STATE OF MAINE

NOTE: The matter below is prepared with reference to the law of Maine and the banking institutions designated are of the character existing in that state, namely, "trust and banking companies" and national banks. In each state in which the above is enacted, the names of the banking institutions, whose acceptances or indorsements of acceptances are to be invested in, should be designated as they are termed in the statutes of the particular state. For example, the New York statute designates such institutions as "bank, national banking association or trust company." Furthermore, appropriate amendatory language in each state should be used with reference to amendment of the section or provision which authorizes investment of savings funds in a specified property and securities, preliminary to the description of bankers and trade acceptances as subjects of investment.

THOMAS B. PATON, *General Counsel*  
*American Bankers Association.*

Amend Section 27, Chapter 52, of the Revised Statutes of Maine by adding at the end thereof the following:

**Eighth:** In acceptances of the kind and character following:

a. Bankers acceptances and bills of exchange of the kind and maturities made eligible by law for rediscount with Federal reserve banks, provided the same are accepted by a bank or trust and banking company incorporated under the laws of this state, or under the laws of the United States and doing business in this state, or a member of the Federal reserve system wherever located.

b. Bills of exchange drawn by the seller on the purchaser of goods sold and accepted by such purchaser of the kind and maturities the same are indorsed by a trust and banking company incorporated under the laws of this state (which is a member of the Federal reserve system) or by a national bank doing business in this state.

Not more than 20 per cent. of the assets of any savings bank shall be invested in such acceptances. The aggregate amount of the liability of any trust and banking company or of any national bank to any savings bank, whether as principal or indorser, for acceptance held by such savings banks and deposits made with it shall not exceed 25 per cent. of the paid up capital and surplus of such trust and banking company or national bank and not more than 5 per cent. of the aggregate amount credited to the depositors of any savings bank shall be invested in the acceptances of or with a national bank of which a trustee of such savings bank is a director.

A letter of explanation was sent to the representatives of the sav-

ings bank section in those states which we thought required amendment to their investment law. The letter was as follows:

Rome, N. Y., January, 16, 1919.

My Dear Sir: "The question of the need and advisability for savings banks to invest a greater portion of the funds committed to their care in assets which are liquid by reason of ready marketability and early maturity, which was so ably discussed by Professor Edwin W. Kemmerer before the Savings Bank Section at the annual meeting of the American Bankers Association in Chicago last September, is one which is in every sense of the word of vital importance to savings banks everywhere.

"It is now generally conceded, by reason of the widespread educational discussion of this matter largely furthered by the Savings Bank Section, that bankers' acceptances, as well as trade acceptances, endorsed by a bank, banking association and trust company, which is a member of the Federal reserve system, afford the very best form of such liquid investments for at least a portion of a savings bank's assets. Owing, however, to the fact that this form of investment has but recently been available in any appreciable quantity in this country, there are many states which have not revised their laws so as to permit savings banks to take advantage of it.

"But even though it seems to be unanimously conceded that savings banks should everywhere have the right and privilege to purchase these liquid and thoroughly safe forms of commercial paper which generally bear better rate of interest than any bank would be warranted in paying on daily balances, it is very certain that they will be made legal for savings banks to buy, only in those states where the matter is clearly and intelligently called to the attention of the legislature.

"With the idea, therefore, of assisting you in securing from the legislature of your state this very desirable addition to the list of securities which a savings bank may legally purchase, the committee on liquid investments has caused to be prepared, and herewith enclosed submits to you a tentative wording which if it meets with your approval can be submitted to your legislature for its consideration.

"We are also sending you under separate cover, a copy of the discussion on the question of Bankers and Trade Acceptances, held at the recent Chicago convention of the association. The address of Professor Kemmerer is most convincing, and the argument which follows excellently supports Professor Kemmerer in the results of his study.

"I am sure that inasmuch as your legislature is now in session

you will be able to successfully propose an amendment to your state law along the lines of the suggested form enclosed.

"Will you not keep me in touch with the progress you make?

"SAMUEL H. BEACH, *Chairman,*  
Committee, Liquid Investments."

As a result of this legislative program Maine, Connecticut, New Jersey, Minnesota, Iowa and Washington, amended the laws to permit investment by savings banks in acceptances. The Maine statute is in accordance with the suggested form of bill proposed by the committee, except that the limitation of the amount to be invested is 10 per cent. instead of 20 per cent. New Jersey amended its law so as to permit one-half of the available funds of savings banks, such available fund not to exceed 10 per cent. of the whole amount of deposits, with such bank to be "temporarily employed in the purchase of notes, drafts, bills of exchange, or acceptances, which have a maturity at the time of purchase of not more than three months, exclusive of days of grace, and which are of the kind made eligible by law for re-discount with Federal Reserve Banks. \* \* \* and that the aggregate amount of the debt of any such bank or trust company to any such savings banks as endorser and acceptor shall not exceed 10 per cent. of the paid-up capital and surplus of such bank or trust company." The statement made at the time the bill was presented to the New Jersey legislature sums up in a particularly terse way the purpose of the amendment in that it is to enable savings banks to employ temporarily a limited portion of their uninvested funds in the purchase of commercial paper of the nature eligible for re-discount by Federal Reserve Banks, and secured by the liability as endorser or acceptor of a bank or trust company in which the savings banks are authorized to deposit funds, to the end that a limited amount of the funds of such savings bank, in addition to the cash on hand or on deposit, may be kept in liquid and readily available form without sacrificing proper interest return upon such funds, and also that the savings banks of this state may not suffer in competition with the savings banks of the state of New York, which are so authorized."

The Washington state legislature amended the law in conformity with the form suggested by the committee.

The Iowa legislature designated no limit for investment in acceptances by savings banks.

Connecticut amended its laws to permit 10 per cent. of deposits being invested in bank acceptances or trade acceptances endorsed by a bank.

Minnesota substantially followed the committee's proposed bill.

As a result of the year's work all states excepting Wisconsin and Pennsylvania permit savings banks to invest in acceptances. An

effort was made in both Wisconsin and Pennsylvania to amend the laws but the bankers of the states did not seem to think it necessary.

#### DESIRABILITY OF LIQUIDITY

W. P. Goodwin, Treasurer of the Peoples Savings Bank of Providence, R. I., in a letter to the Chairman of your committee contributes an interesting thought with relation to liquidity.

"One must not become obsessed with the idea of liquidity of savings banks, but the intractability of an undue proportion of not readily liquidable securities should always be guarded against. From my own investigations of the subject, I am clear in my judgment that a 'run' will spend itself by the time 12 per cent. of the deposit line is drawn and usually 10 per cent. is the limit. In our own experience, the runs which we have met and taken care of have stopped before the 10 per cent. proportion has been reached. While we go largely beyond the requirements to meet a 10 per cent. run, I do not think there is any real need of it, but feel that it is wise to have fully one-third of the assets (instead of the deposits) in closely liquidable form so as to easily take care of any extraordinary calls for cash simply by refraining from discounting paper for a few days."

#### LIQUIDITY BETTER THAN NOTICE OF WITHDRAWAL

Though the question of the problem of liquid investments for savings banks is a serious one, it may be solved properly. There has been very little investment during the year by savings banks in acceptances. A large issue of Treasury certificates of indebtedness is accountable for this. These certificates will be issued by the Treasury Department in considerable quantity for some time to come, on account of the necessity for Treasury funds before Federal taxes are collected. Hence, the certificates make excellent short term liquidable investments for the savings bank. At the same time a certain proportion of funds that would otherwise be deposited in bank at a small rate of interest may be invested in acceptances at an increase of 1 or 2 per cent. above the interest rate paid for bank deposits. Thus, it is admitted that particularly the banker's acceptance is a splendid present investment of the available funds of a savings bank.

The necessity for notice of withdrawal being placed in effect in time of emergencies may be questioned, not because it fails to curtail depositors' demands, for it is effective in that respect, but because it contributes to a measurable degree to a loss of confidence by the public in the banks.

Competition for savings deposits, particularly during the past few years, has become rife, and since it is not the general practice of commercial banks and trust companies which have savings departments

to put into effect a notice of withdrawal it would hardly be desirable for savings banks to do so.

Ex-President Hawley in the early part of 1918 stated:

"Whatever may have been the history and custom of mutual savings banks in the past, in practice depositors expect savings banks to pay on demand, and bankers plan to meet such expectations and hesitate if they do not, and in fact abandon entirely their right to require notice. This is especially true in the West, where savings deposits are largely in savings departments of commercial banks, or in certificates of deposit of such banks. If, therefore, through custom or expediency, it is thought best that savings banks should not ordinarily require notice of withdrawal, then it would be necessary that they be in condition to respond to large demands whether expected or coming without expectation, and in order to do so it necessarily follows that they must have assets upon which they can quickly realize. I do not, however, wish to be understood that the right of requiring notice should be abandoned. On the contrary, there should be a general inclination throughout the country to make withdrawals, savings banks should be in condition to require notice of withdrawal, if it is thought best. I think, however, that with the Federal Reserve System in operation, and the growing practice of paying cash during sporadic runs, the expedience of requiring notice will grow less and less. It would, of course, be folly for commercial banks to ever require such notice even when they reserve the right in the passbooks, and because of this fact in the West and South at least, where there are few mutual savings banks, it is quite likely that the mutual savings banks, which are comparatively few in number, must follow the necessary custom of the commercial banks and pay on demand even when there are runs.

"Second, if savings banks are to keep sufficient of their funds in liquid form to meet the necessities of ordinary and extraordinary business conditions, the question arises as to what course should be pursued to render such assets readily turned into cash. There are two ways: By holding assets that are always marketable and standard in price, and, second, by having obligations that are maturing immediately or within a very short time. My own opinion is that both policies should be pursued. Savings banks should keep on hand some securities that the officers feel can always be sure can be marketed promptly and without great loss. In some localities these assets might consist of farm mortgages, in others of government bonds, public utilities securities and the like."

Mr. Hawley struck the keynote of the entire thought of your committee's work.

## RECOMMENDATION FOR CONTINUED WORK

In the activities for the coming year it is earnestly recommended that the desirability of liquidity of a certain portion of savings bank assets be brought prominently before the savings bankers of the country. It is a banking principle rather than a desire to absorb a quantity of a certain class of securities that should be foremost in our consideration of the subject. There may be times of great emergency when the notice of withdrawal may be demanded; but it should be put as far away as possible, and instead the banks should be encouraged always to have on hand an available fund, other than cash, that will be of the highest degree of liquidity. Not only does this apply to acceptances, but to the maturities of the securities in which the banks are permitted to invest. Amortization of mortgage loans in respect of greater liquidity is also of considerable importance.

## REPORT OF COMMITTEE ON AMERICANIZATION

W. S. WEBB, Chairman

Gentlemen of the Convention: In the early part of the committee's work the following suggestions were made, which have largely been carried on by the various factors of Americanization:

1. Urge amendment of laws in states where foreign population is a factor, to eliminate the nefarious private banker and real estate agent who wrongly influence the immigrant to buy waste lands and securities of an uncertain and doubtful value, thus giving the immigrant an erroneous understanding of the standards and ideals of America.

2. Urge Congress to legislate to continue to control steamship facilities, through the control by the State Department of the issuance of passports for travel abroad on the principle of public necessity, to the end that at least the more desirable foreigners and those simply returning to their respective fatherlands for curiosity remain in the United States, and to the end that the possible strain on the American labor market will be somewhat relieved. This may be accomplished in co-operation with the National Council of Defense.

3. Conduct an educational campaign through foreign language newspapers and periodicals and other avenues of approach to the foreign population, describing the desirability of the foreigner remaining in this country.

President Lersner was made a member of the Inter-Racial Council, the work of which is to urge Americanization of the foreign born. Naturally Mr. Lersner represents that part of the work which relates to training the foreign born in American customs and usages pertaining to the

savings bank business. Conferences he has had at meetings of the Inter-Racial Council had an important bearing on the activities of that body.

Vice-President Strong has also been most interested in the question in Connecticut, and Secretary Harrison has kept in close contact with all phases, interesting to financial institutions, of the work of Americanization.

#### RELATION OF AMERICANIZATION TO SAVINGS BANKING

There have been many disturbing situations that have arisen since our last meeting because of lack of Americanization among the foreign born. There are 33,000,000 people in the United States either foreign born or of foreign born parents. Naturally a great proportion of this number, particularly of the 17,000,000 foreign born, have been so situated as to make it very difficult for them to assimilate American standards and ideals. Many foreigners come to America with the express purpose of earning enough to accumulate a fund with which they may retire on a farm in the old country. During a normal year our foreign born export over \$400,000,000 in savings. The thought is that a thousand dollars here means nothing to them, but in the fatherland it will purchase a farm on which they can spend their old age and die in comfort. As a consequence the ordinary foreigner, with such an object in mind, saves his money but does not deposit it in this country. It is sent abroad and accumulates in foreign banks. This is because foreigners do not understand America. The ordinary banking institutions will not encourage the foreigner. They do not establish facilities for his convenience, nor employ anyone who knows his language.

The restriction on immigration and export of savings has emphasized the average re-migration of foreign born and the normal export of savings. The normal accumulation, without considering the tremendous increase in wages that the foreign-born worker has had in the last four years, would be \$1,600,000,000 to be exported, and 1,600,000 re-migrants.

Some interesting facts in this respect are given in a letter to the American Bankers Association by Chief Investigator Clark of the Department of Labor of the State of New York:

"Gentlemen: The attention of the State Industrial Commission has been directed to the fact that immigrants throughout New York State and country are being victimized by so-called Liberty Loan swindlers who are either purchasing these bonds for a fraction of their value or exchanging them for utterly worthless securities. There are 3,000,000 aliens in New York State. 680,000 are unable to understand the English language and of these 239,333 were drafted into the army, a vast number of whom have been naturalized and own Liberty bonds. These men were withdrawn from every essential industry in the state. Shall we permit our soldiers

to be swindled out of their bonds without making an effort to protect them? The employees of railroads, mines, steel corporations, reducing plants, factories and mills have all invested in Liberty bonds, some of them in considerable amounts. Many are illiterate and can be easily induced to sign papers of the contents of which they are ignorant. It is estimated that immigrants in this country have saved \$1,500,000,000 since the war began. Before the war they annually transmitted about \$400,000,000 each year to foreign countries. The high rate of wages during the past four years has largely increased their capital, owing to the impossibility to transmit money to Europe. It is a common occurrence for an ordinary immigrant lodging-house keeper to have \$20,000 given to him for safekeeping overnight.

"When the United States first entered the war these immigrants withdrew millions of dollars from banks and savings institutions and sacrificed their homes and property in a panic of fear. At this time the Bureau of Industries and Immigration of the State Industrial Commission organized reassurance mass meetings in fifteen cities throughout the state which were attended by from 1,000 to 3,000 aliens, and as a result millions of dollars were restored to state and postal savings banks.

"Complaints on file in this office establish beyond doubt that Liberty bonds have been exchanged for worthless stocks and that \$50 bonds are being bought up for \$20. Our foreign-speaking soldiers must be warned. They are practically all in need of ready money. The bond swindler tells them that they cannot obtain any cash on the bond before maturity. In any instance where a foreign-speaking soldier or laborer may be forced by necessity to sell his bond, this Bureau will undertake to obtain the market value without cost or delay.

"The only way to effectively reach these hard-working people and safeguard their interests is to address them in their own language at mass meetings in alien colonies throughout the state. They have confidence in this state department and will accept advice through this agency.

"Most of them are thrifty, but have had a long and unfortunate experience in their efforts to invest money in this country. They are the legitimate prey of every swindling operation by which the public has been victimized—stock swindlers, real-estate swindlers and money transmission agents.

"The result of their hard-earned industrial prosperity should not become the loot of swindlers and stock-scalpers. A notorious swindler of this type now under indictment in this county who specially selects aliens for victims has incorporated his fourteenth company and is in a fair way to accumulate another block of



Liberty bonds in exchange for his worthless stock. It is alleged that this man recently publicly exhibited one hundred thousand dollars worth of Liberty bonds and boasted of the ease with which he had acquired them.

"Our foreign population is reached through extravagantly worded advertisements in foreign language newspapers, as well as by the employment of foreign-speaking agents who circularize the foreign colonies of the state. The activities of these swindlers can only be counteracted by foreign-speaking investigators from a state department with which they are familiar and in which they have confidence; therefore, mass meetings will be held in armories, schools or theatres in the following places: Buffalo, Batavia, Niagara Falls, Massena, Utica, Rome, Troy, Schenectady, Mineville, New York, Yonkers and Potsdam, beginning on or about Wednesday, April 9th.

"The co-operation of the Bankers Association is earnestly solicited as well as a letter of endorsement.

(Signed) "MARIAN F. CLARK,  
"Chief Investigator."

There are bound to be many disturbing experiences which we must have incident to world readjustment, but it is the part of the Savings Bank Section to keep constant watch on all of these public questions that may have a tendency to affect the business of its members, and promptly inform them on all such matters.

The readjustment period will undoubtedly bring to our attention many serious problems affecting the foreign born. In New York State alone, for example, it is estimated that \$125,000,000 a year is exported normally in savings of our alien population. Foreign banking institutions have solicitors employed for collecting these savings from immigrants. The foreign banking concerns interested are generally representatives of the government postal savings banks of such countries as Austria, Hungary, Germany and Italy.

It is difficult to Americanize a foreigner whose financial affiliations are maintained and increased in the fatherland. It is desirable, therefore, that the Section carefully study this problem and co-operate with the established organizations in particular respect of increasing the savings of immigrants in American savings institutions. The export of savings is the greatest deterrent force to the Americanization of immigrants, and it is incumbent upon the bankers of America to do everything possible to encourage the use of American banks by the foreign class.

#### RECOMMENDATION

Hence, your committee recommends continuance of this committee and urges a close study be made of the problem described in this report.

## REPORT OF COMMITTEE ON STATE LEGISLATION

RAYMOND R. FRAZIER, Chairman

The activity of your committee during the past year has been confined largely to studies of questions relating to the problem of stabilizing and strengthening state banking institutions conducting a savings business. Also we have co-operated with other section committees where support was required, in order to have the recommendations of committees, where necessary, brought to the attention of state legislature for the amendment of state laws. In this latter activity your committee was instrumental in assisting the committee on liquid investments to place on the statute books laws permitting savings banks to invest in acceptances. The committee supplied information to bankers in various states during the year, aiding materially in promoting desirable and opposing vicious legislation.

The work of this committee is not to direct legislation within a state, but to co-operate with state associations. Hence, so far as contact with state legislatures is concerned, the committee simply exercises an indirect influence. However, it is also the aim of the committee to make studies of such questions as guarantee of deposits, segregation of savings deposits and taxation—to the end that the committee may suggest to state associations legislation calculated to encourage sound savings banking and generally to improve the conditions surrounding the business.

The unselfish advocates of this principle presumably are interested primarily in the protection of the people's savings. Savings funds are trust funds, and it is in the public interest that adequate safeguards be thrown around such funds. However, it is admitted that the creation of a state-administered bankers' guaranty fund to insure all classes of depositors against loss may properly be adjudged an excuse for lax bank examination, and a substitute for legal restrictions on investments of savings funds. There is firm opposition among strongly managed banking institutions everywhere to an enforced program of blanket protection by all banks to the depositors in banks which are poorly managed. The policy of restricting the investment of savings funds and legally prohibiting the commingling of such funds with ordinary commercial deposits finds greater favor, and especially is this true in the well settled states of the Union.

While it is the general belief that guarantee of deposits is an unsound banking principle, nevertheless it finds sincere advocates in some of the sparsely settled and undeveloped states; but the enforced application of the system in such states, for example, as those of New England, and in New York, New Jersey, Pennsylvania, Michigan and California, would be considered by the majority of bankers as unsound and unjust, if not vicious.

Restrictive investment laws for savings funds in the main are divided into three parts:

- 1st. Investment in first mortgage loans of a safe proportion of the value of the mortgaged property;
- 2nd. Highgrade public or quasi-public obligations; and,
- 3rd. An available fund from 20 per cent. to 30 per cent. of assets which shall consist of short term obligations, such as prime acceptances, commercial paper eligible for re-discount at a Federal reserve bank, and a necessary amount of cash on hand and in bank. In the brief classification here given is found a definition for safe and sound securities. And the adoption of a program like this recognizes the authority of the state in a measure to dictate to banking institutions a standard of investment for the disposition of what admittedly are trust funds.

While your committee does not wish to go on record as recommending that the so-called non-mutual savings bank states adopt uniform savings bank laws, it recommends, however, to the serious consideration of all states which do not have adequate savings bank legislation, that attention be given to the subject of legislating for the savings depositor, who, in all sections of the country is, as a rule, a person with limited business experience,—who believes, and has a right to believe, that his savings funds—the fruit of his labor and thrift, has special protection under the laws of the state. Your committee believes that such special segregation of savings from commercial deposits, thereby separating capital, assets and liabilities; and in addition the enactment of laws limiting investment of savings funds to high grade securities.

We recommend to bankers in all states having inadequate savings bank laws a study of the departmental banking law of the state of California.

We invite the attention of all non-mutual savings bank states to a statement recently made by John S. Drum, Vice-President of the American Bankers Association, in which he says: "To my mind, the decided trend of the times is to unite the activities of credit and investment in one institution and to do a trust, savings and commercial bank business. When this is done it seems to me almost a necessity to create separate departments, (meaning with separate capital and liabilities) for the transaction of each class of business. Only in this way can the proper safeguards be given. The law has worked very satisfactory in California, etc."

And to a statement of Charles F. Stern, Superintendent of Banks in California, made in July of this year: "The result of this law (Departmental Bank Act) has been the maintenance of absolute integrity of assets in the savings department, a very wide capacity for the organization of credit in the commercial department, and the

indulgence of fiduciary activities in the trust department. Each business segregated as to capital and assets and liabilities proceeds within its own limitation and is free from any invasion or hazard that might arise from the operation of any other department. We have found the operation of this system to be particularly grateful in connection with savings which are protected to the highest degree by laws establishing a limited taxation.

The committee has gathered considerable material in relation to the taxation of savings deposits. This material will be compiled, analyzed and issued in pamphlet form to members of the Section. It will also be printed in a forthcoming issue of the Journal of the American Bankers Association.

## REPORT OF SPECIAL THRIFT COMMITTEE FOR WORK AMONG COLORED PEOPLE

JOHN MITCHELL, JR., Chairman

Gentlemen: The thrift movement launched by this section has been enthusiastically received by the colored people of this country and it has received added impetus by the campaign for the sale of Liberty and Victory bonds. Tens of thousands of our people who were not saving before are adding to their earnings now. The wave of patriotism that swept over the country affected more noticeably the colored people than any other class of our citizenship.

Six colored banking institutions in Virginia alone purchased directly and indirectly a quarter of million dollars worth of these bonds. This movement was accelerated by the interest of the employers, who offered all kinds of inducements for the colored people to save their money and purchase these bonds. I take it then that no opportunity to further the interests of the thrift movement among colored people was more favorable and beneficial than this nation-wide campaign to help the government directly and to aid the colored people indirectly.

This movement cultivated a better relationship, too, between the better class of colored people and the better class of white people. One class vied with the other class in saving money and in coming together in meetings for the purpose of aiding a common cause. The hegira of large numbers of colored people to northern climes to supply the steady stream of foreigners who had been called home to Europe affected the South to a great extent, but the North to a greater extent.

Those of us who reside in the South realized, though, that it improved conditions for those who remained behind. White people who were friendly before became more friendly afterwards and white people who had been unfriendly became more friendly when they saw some of their best colored citizens leaving the section in which they had lived during a life-time. However, there were some good features about this move-

ment, in that many of the shiftless, good-for-nothing loafing, crap-shooting elements left too.

To one class, many of us stood on our door-steps with handkerchiefs to our eyes; to this other class, we stood in the same place, hoping that they would never return. I take it that the recent periods of unrest in many portions of the North and a few places in the South that have crystallized themselves into so-called race-riots have been due to the jealousy brought about by the influx of the industrious classes, whose progress is known to all men.

The lower white elements, who had seen service abroad, did not like this closer relationship between the better class of white people and the better class of colored people and sought by these sporadic outbursts to break the welding of friendship by this unseemly appeal to race prejudice. It did not succeed and it will not succeed. A southern white man, as a rule, has more patience and is more charitable in dealing with an erring black man than are the people of this black man's race. Both the white and the colored people are determined that the friendship brought about by the war shall not be dissipated by the riots that may take place between the worthless class of both races.

The interest of the southern white people in the colored people is as wide as the world and as deep as the sea. They are helping with their money and their advice many movements now for the elevation and happiness of the colored people and these colored people are reciprocating this feeling. I have recently visited New York, New Jersey and Pennsylvania and observed conditions there. Many of my old friends are among the number housed in these northern climes, but they are all looking forward to the time when they can make enough money and come back home.

Many people, including some colored people, have been under the impression that loafing was a natural trait of the colored citizen. Bulletin No. 129, issued by the U. S. Census Bureau, shows that the total acreage operated by colored people in 1910 was (42,279,510) forty-two million, two hundred and seventy-nine thousand, five hundred and ten acres, and the total value of the farms operated by colored people was (\$1,141,792,526) one billion, one hundred and forty-one million, seven hundred and ninety-two thousand, five hundred and twenty-six dollars.

The white people of the Southland taught colored people how to work and it is evident from these figures that they have not forgotten the lesson. Out of (3,178,554) three million, one hundred and seventy-eight thousand, five hundred and fifty-four colored males over ten years of age:

30.9 per cent. were farm laborers.

25.1 per cent. were farmers.

5.2 per cent. were laborers on buildings and in trades.

1.6 per cent. were porters in stores.

1.2 per cent. were helpers in stores.

1.1 per cent. were waiters.

1.1 per cent. were cooks.

0.6 per cent. were retail dealers.

0.5 were preachers.

Out of (2,013,981) two million and thirteen thousand, nine hundred and eighty-one females:

48.1 per cent. were farm laborers.

17.9 per cent. were wash-women.

10.9 per cent. were cooks.

1.1 per cent were school teachers.

It will be observed that we are a laboring class of people, who have devoted very little of our time to commercialism and some of our time to the thrift habit.

The white South has been charged with condemning us to illiteracy, but statistics tend to show that it is not altogether guilty. Of (7,317,922) seven million, three hundred and seventeen thousand, nine hundred and twenty-two colored people ten years of age and over, only 30.4 per cent. were illiterate.

The colored people of Virginia, the state from which I hail, according to the report of the Auditor of Accounts for 1918, owned (1,755,961) one million, seven hundred and fifty-five thousand, nine hundred and sixty-one acres of land, valued at (\$11,091,524) eleven million and ninety one thousand, five hundred and twenty-four dollars. The assessed value of their property, both real and personal, was (\$44,579,733) forty-four million, five hundred and seventy-nine thousand, seven hundred and thirty-three dollars.

It seems, then, that the American Bankers Association, or rather the Savings Bank Section, showed rare judgment in launching a movement for the advancement of thrift among colored people. In passing, it may be well to state that I feel keenly the retirement from the secretaryship of the very able official, who has done so much to promote the success of the Section. Save for the fact that an able successor has been named, it would be in the nature of a calamity. I hope that a plan will be devised whereby the approximate amounts of money now on deposit in the banks of the country to the credit of colored depositors may be ascertained, and which amount, when combined with the sums in the keeping of the few colored banking institutions, may give a true insight into the amount of the savings of this truly happy, but remarkable people.

**OFFICERS**  
**CLEARING HOUSE SECTION**

**1919-1920**

**Organized October 17, 1906**

**PRESIDENT:**

**RAYMOND F. McNALLY**

**Vice-President and Cashier, National Bank of Commerce, St. Louis, Mo.**

**VICE-PRESIDENT:**

**A. A. CRANE,**

**Vice-President, First and Security National Bank, Minneapolis, Minn.**

**CHAIRMAN EXECUTIVE COMMITTEE:**

**JOHN R. WASHBURN,**

**Vice-President, Continental and Commercial National Bank, Chicago, Ill.**

**SECRETARY:**

**A. T. MATTHEW,**

**5 Nassau Street, New York, N. Y.**

## EXECUTIVE COMMITTEE

(TERM EXPIRING 1920)

**JAMES RINGOLD**, Vice-President, United States National Bank, Denver, Colorado.

**JOHN R. WASHBURN**, Vice-President, Continental & Commercial National Bank, Chicago, Ill.

(TERM EXPIRING 1921)

**FRANCIS COATES, JR.**, Examiner, Cleveland Clearing House Association, Cleveland, O.

**JOSEPH WAYNE, JR.**, President, Girard National Bank, Philadelphia, Pa.

(TERM EXPIRING 1922)

**FRANK B. YETTER**, Cashier, Iowa National Bank, Davenport, Iowa.

**A. D. GRAHAM**, President, Citizens National Bank, Baltimore, Md.

(EX-OFFICIO)

**THOMAS B. MCADAMS**, Vice-President, Merchants National Bank, Richmond, Va.

**RAYMOND F. McNALLY**, Vice-President and Cashier, National Bank of Commerce, St. Louis, Mo.

**A. A. CRANE**, Vice-President, First and Security National Bank, Minneapolis, Minn.



# PROCEEDINGS OF THE THIRTEENTH ANNUAL MEETING

## CLEARING HOUSE SECTION

### AMERICAN BANKERS ASSOCIATION

At St. Louis, Mo.

Tuesday and Wednesday, September Thirtieth and October  
First, Nineteen Hundred and Nineteen

The thirteenth annual meeting of the Clearing House Section was held in St. Louis, Mo., September 30 and October 1, 1919. The first session was called to order at the Planters Hotel at 2 o'clock P. M., Tuesday, President Thomas B. McAdams, of Richmond, presiding.

The President's annual address was delivered by Mr. McAdams as follows:

### ADDRESS OF THE PRESIDENT

THOMAS B. McADAMS

At the spring meeting of the Executive Committee of your Section at White Sulphur Springs in May, your President, Mr. Stoddard Jess, who because of public services and other demands upon his time, found it impossible to give the necessary attention to the Section's affairs, tendered his resignation, which was accepted with regret.

Your Vice-President was advanced to the Presidency, Mr. Raymond F. McNally, Chairman of the Executive Committee, was elected Vice-President and Mr. A. A. Crane, who had seen four years' service on the Executive Committee was selected as its Chairman.

In December the Section suffered a severe loss through the resignation of Mr. Jerome Thralls, who for several years had served so efficiently as Secretary of the Clearing House and National Bank Sections. Mr. Thralls resigned in order to accept the secretaryship of the Discount Corporation of New York. Through the presentation of a token

of our appreciation and the adoption of proper resolutions, the services of Mr. Thralls to the Section were recognized; and, in addition, he was elected a member of the Executive Committee to fill the vacancy caused by the resignation of Mr. Jeas.

Our Section of the American Bankers Association is not simply a department for clearing houses, but in itself is a clearing house for the exchange and development of banking ideas, the improvement of banking customs and the strengthening of banking policies. Comprising in our membership banks organized under state laws, as well of national institutions, trust companies, savings banks, those which are members of the Federal reserve system, as well as those which are not, an unusual opportunity is afforded us to study and assimilate the best that is in each system and work toward a further co-ordination of the banking systems of the country.

This result will not necessarily be attained by all banks being organized and conducted under one set of laws, but, through a careful analysis of existing statutes, much can be accomplished to the end of having the best of the provisions incorporated in the banking laws of the various states and the National Government; at the same time eliminating those practices which are not economically sound and which tend to discredit the banking systems of the country.

In considering how clearing houses may render the maximum of service, a careful study of the various rules, which have been adopted for the guidance of member institutions and the public at large, is necessary, and it is interesting to note how many fundamental differences exist between regulations adopted for the same protective purposes by the clearing houses of the various centres. Many excellent provisions in force in some cities, whose efficacy and real value have been well proven, have, because of negligence, lack of information or the peculiarity of local conditions, never been adopted by others who could use them to great advantage.

At this convention there will be presented to you an analysis, contrasting the rules of some of the principal cities, and we hope this will form the ground work of an effort on the part of our Section to bring about a freer exchange of views between the several clearing houses and more uniformity in our adopted regulations.

While checks on about 60 per cent. of the non-member institutions are collectible at par through the Federal reserve system, provision must still be made by the clearing house banks for collecting the other items, exchange on which varies from 50 cents to \$2.50 per \$1,000.

Unquestionably the best method, so far devised for handling this enormous volume of non-par items is the country clearing house, and in your hands today is the report of a special committee which has made a most careful study of the subject. They present for your

consideration definite figures showing how, through this character of co-operation, exchange charges have been reduced, and this reduction from a dollar and cents standpoint has been real, not nominal. Minimum charges on small items have been eliminated, postage saved, overhead charges decreased and transit time reduced to a minimum.

All of this, too, has been accomplished without antagonizing the country banker, who, as his experience with the system has increased, has readily realized that it is in the interest of efficiency and results in the saving of time and expense, with a corresponding reduction in the risk involved.

There should be at least one country clearing house in each Federal reserve district, and there perhaps should be one in every city where there is a branch of a Federal reserve bank and where the Federal reserve bank does not collect items on all points in the district. So far, these clearing houses have been organized to handle only a limited territory, but through the establishment of them in every section of the country, it should be quite easy to arrange for an exchange of items between them on a cost plus transit time basis, which would result in the elimination of millions of dollars of reciprocal balances now maintained unnecessarily in order to provide for the collection of these items and the releasing of this money for loaning purposes, with a consequent increase in earnings.

The establishment of such an institution in your city, therefore, should not only bring you the local benefits outlined in the committee's report, but we hope will enable your city to also become a link in the chain, the formation of which will help solve the collection problem of the country at large, insofar as it has to do with items not collectible through the Federal reserve system.

In discussing the exchange question, it might also be well to mention that hundreds of the smaller member and non-member banks, items on which are now being collected at par through the Federal reserve system, are greatly dissatisfied with the rulings of the Federal Reserve Board on this subject and the advisability of instituting legal proceedings for the purpose of having the language of the existing statutes judicially interpreted is being seriously considered.

It has also been claimed by some that it is manifestly unfair for reserve city banks to charge their customers exchange and make a profit on these items which are collectible at par through the Federal reserve system and for which the paying banks are forced to remit at par. It is felt that under these conditions the depositor of the remitting institution should receive the benefit of having his checks pass at par, and there is a decided possibility that our clearing house institutions will in the near future be confronted by the question whether their charges on such items shall be limited to an amount which will exactly cover the transit time, no other exchange or service charges being permitted.

One argument advanced, justifying the position of the depository bank, is that in order to give the depositor this collection and other services obtained through the Federal reserve banks, large balances, earning no interest, must be maintained with those institutions, and it is therefore entirely in order to agree with the depositor upon a reasonable schedule of charges. At any rate, it would seem well for us to familiarize ourselves with this question so we may be prepared to act intelligently when it is presented to us for decision.

During the year our special committee charged with the compilation and introduction of a form to be used by houses selling their paper in the open market, completed the preparation of the form, appointed representatives in the principal paper buying centres in an effort to interest bankers generally in the movement and held several conferences with leading note brokers urging upon them the adoption of the form for general use.

Some confusion has arisen through bankers erroneously thinking this form was prepared to take the place of those recommended by the Federal Reserve Board and the American Bankers Association for the use of banks in dealing with their own customers. The form in question, however, was designed solely for use in connection with open market operations; it being felt that a bank in Chicago, buying the paper of a house in Louisiana or California, is entitled to at least a reasonable portion of the information it requires from its own customers, with whose affairs it keeps in constant touch. To ask a bank to buy paper based solely upon a balance sheet, with no information as to earnings, volume of business, indirect liabilities, hypothecated assets, etc., is unreasonable and opens the way to irresponsible houses supplying themselves, from uninformed institutions, with working capital, which could not be obtained from their local banks.

So far, apparently because of fear of competition, the brokers, as individual firms, have not been willing to agree to require their clients to use this form, although the leaders among them admit it is a step in the right direction and that the paper buying bank is entitled to more information than is furnished by the usual balance sheet. With paper buying institutions scattered all over the country, it has also been very hard to work out a plan by which concentrated action could be obtained and paper which does not give this information discriminated against in favor of those names about which the desired facts are obtainable.

The situation is by no means a hopeless one, however, and during the last few weeks a plan, the details of which cannot be announced at this time, has been formulated, which, there is every reason to feel, will satisfactorily solve the problem and put greater safeguards around investments of this character; which protection will be needed, especially during the readjustment of business and credit which must come sooner or later.

Just what form this readjustment will assume, or when it will come, no one can tell, but our ability to successfully handle the problems which will then confront us will depend largely upon the foresight, the energy and the fearlessness we show at this time in adjusting the existing foreign exchange situation and in solving our problems of domestic unrest.

Even could our foreign friends spare the gold at this time, we would not wish them to adjust the exchanges by sending it to us, as the importation of gold would necessarily result in a further inflation of credit, increasing materially our living problems by further decreasing the value of gold in exchange for labor and commodities.

With the purchasing power of gold reduced one-half in this country, it seems illogical that the French, in addition to paying this premium for goods purchased, can afford to send eight francs to America instead of five to buy a dollar's worth of goods, while the English face the same, though slightly modified situation, when it takes approximately five shillings in London to buy a one dollar draft on New York, where only four were formerly needed. While, regardless of price and difference in exchange it may be necessary for them to buy our foodstuffs and materials now, once their production begins to approach the normal, their purchase of manufactured articles will decrease materially and the American merchant, at the same time, will find it cheaper to purchase abroad than at home.

With our present relatively low tariff rates, we therefore face the possibility of having our markets flooded with foreign made goods, and should this actually take place it would naturally be followed by a reduction in the cost of living, an increase in the purchasing power of the dollar through the decrease of our outstanding circulation and an adjustment of exchange, an over-supply of labor and material and a corresponding necessity for reducing the operating costs of producing, transportation and distributing organizations.

It is unnecessary to dwell in detail upon the complicated problems involved, but simply to emphasize how much really depends upon a sane solution of these vital problems. Suffice it to say, foreign exchange is no longer a question for the consideration of the bankers of the larger cities alone, but it challenges the attention and careful study of the banker in every part of the country, especially those of the clearing house cities which serve large industrial and agricultural sections.

A year ago at Chicago, as we awaited news of the campaign in the Argonne, which had begun but a few days before and in the success of which our American boys were destined to play such a brilliant part, we faced the future with grim determination and absolute confidence as to the ultimate outcome, strong in our belief in the invinci-

bility of those troops, which two weeks before had in twenty-four hours eliminated the powerful St. Mihiel salient which had protruded threateningly into the lines of the French for over three years. Confident as we were, however, who amongst us would have been so bold as to predict that within six weeks from that time the German hordes would be beaten to their knees, Sedan would fall before an onslaught of American valor and American spirit, an armistice would be plead for and granted, and the slaughter, which had begun over four years before, terminated forever!—let us hope.

A few days more and, without shedding another drop of American blood, the dream of our people was realized, American troops were at the bridge heads of the Rhine and Old Glory flew majestically over the grim fortress of Ehrenbreitstein, a tribute alike to the patient, perseverent bravery of our Allies through so many months of trial and the brilliant, care-free, hard-hitting fighting qualities of America's young manhood, which furnished the climax to this most terrible of the destructive struggles of the ages.

These results were not achieved without much effort, some tears and many real sacrifices, but the result of our efforts was worth all it cost, and were it necessary, in order to better prepare America for a solution of the problems of the immediate future, we would readily have given more, sacrificed more and suffered more.

The war brought together the various elements and classes of our heterogeneous citizenship as nothing else has ever done; patriotism was alive in places where, before 1916 it was an unknown word; individuals who had been leading lives of ease and luxury made their first real effort to serve others; love of country was born in the boyish breasts of those who had been classed as street loafers and outcasts before the conflict began; the quiet unassuming lad became a real leader of men; the untamed mountaineer and the headstrong youth of the cities each yielded readily to his first experience with discipline; while with brave hearts and a cheerful smile the womanhood of America bade Godspeed to the boys they never expected to see again. Selfishness for the moment seemed put aside. While some flagrant instances of taking advantage of the necessities of the nation for individual profit were evident on the part of both labor and capital, as a whole, the people gave, served and prayed as they never had before. Almost miraculously the war developed the latent powers of America, and when put to the test her ability to initiate, to organize, to produce, to finance, to succeed evoked the wonder and admiration of the whole world. Her spirit proved itself unconquerable.

This, in my judgment, is the answer to those who are today crying that America will be exploited by the leaders of those elements who would substitute license for liberty and the power of the mob for the rule of justice. The surging tide of unrest which had its birth in the

reaction following the collapse of the tyrannical, imperialistic regime in Russia will never destroy the free institutions of this country. (Applause).

Unquestionably the situation needs careful and intelligent handling, but once let the now well trained manhood and womanhood of the nation realize that any class or group of dissatisfied organizations has determined to rule or ruin and they will sound those same defiant notes of a liberty loving people that were hurled at those other enemies of freedom at the Marne and upon the Meuse.

Since the early days of civilization man has made laws for the protection of the weak against the oppression of the strong. Because of their taking advantage of a temporary control of a situation to demand life and property not their own, the highwayman and the pirate have always been looked upon as the enemies of society. Only too recently have we sacrificed the lives of American boys for the purpose of teaching a brutal nation she could not over-run a weaker people at the point of the sword, to make it necessary to dwell upon this point. Yet we see in this country street-corner orators advocating that the masses through mere force of numbers should tear down the institutions it has taken America centuries to erect; that property ownership is a crime so long as it belongs to its present owners and that law is to be despised when it conflicts with the desires, ambitions and the passions of the lawless.

One may have sympathy for organized labor as such and for the thousands of patriotic citizens among its membership, who are working conscientiously in order to improve working conditions and to adjust wages upon a basis fair alike to the employer and employe, and yet must condemn some of the other individual members of these organizations who have let their enthusiasm for a cause make them advocate policies unreasonable, unsound and unfair.

Under the leadership of men who, in their enthusiasm for correcting one wrong, have permitted themselves to become radical to the point of being dangerous, many otherwise loyal, splendid citizens have been carried along and become parties to movements in behalf of a class as opposed to the state at large, of which policies they, as individuals, would never approve.

Men have threatened to let their neighbors suffer from the cold, to permit innocent American mothers and their babes to starve as a result of the cessation or blocking of transportation, if by no other means they could secure more pay and less work. Even though they could demonstrate their demands were entirely reasonable, they can hardly justify their trying to obtain them through the threat of bringing suffering to innocent thousands.

The question for us to consider seriously at this time is whether these demands, made in the name of organized labor, are really

prompted by a sincere desire to improve the conditions of the working man or if they are inspired by unscrupulous and socialistic agitators, who, in the guise of labor leaders, really desire to see working conditions unsettled, and through a decrease in production and a heavy increase in the cost of manufactured articles, make the cost of living so high that we will face the possibility of a social revolution, under which they and those they represent would hope to get control of our industries and even the government itself.

The attempt to organize the policemen of Boston in such way that they would be affiliated with a particular class of the community, rather than serving as the impartial protectors of the life and property of every class of citizen, brought forth a just rebuke from the Governor of Massachusetts and the President of the United States.

Just how far are we justified in classifying these radical statements and movements as having the personal approval of the individual member of organized labor? Just how far, for instance, are the advocates of the Plumb plan for the control of the transportation systems of the country justified in their claim that it has the backing of organized labor, when it is unreasonable to presume that one-tenth of the members have ever read the plan or have any idea as to its principal provisions.

Organized labor must not look upon opposition to radicalism of this kind as an attack upon the fundamental purposes of their organization, but rather as a protest against any plan which attempts to deprive persons of their property without their consent one cannot believe that the conservative, thoughtful majority of red-blooded American workingmen will, after it is explained to them, approve of any plan, Plumb, prune or lemon (laughter), which is based upon confiscation.

We may agree fully with Lloyd George when he says, "There is something wrong with a world where toll for the myriads of honest workingmen and women purchases nothing better than squalor, penury, anxiety and wretchedness," and again, that "it should be the sublime duty of all, without thought of partisanship, to help in the building up of a new world where labor shall have its reward and indolence shall suffer want"; yet, in any readjustment on a basis of labor as contrasted with idleness, it must not be presumed that the only labor entitled to recognition is the labor of one's hands. Payment for brute strength alone results in a mule's being entitled to more pay than a man. In providing fair compensation, all labor must not be put upon the same basis, but its value should be determined by its efficiency; the character and amount of work accomplished and the contribution made thereby to the needs of mankind. Initiative must be encouraged and properly compensated, for some men must be pioneers, willing to risk their all in the development of a new enterprise or



idea, if opportunity is to be afforded the increasing number of men and women to earn a proper livelihood.

The native American laborer wants chaos no more than other citizens and when his loyalty and good sense are appealed to will, I am sure, go as far as any other class to prevent the disorganization of government and the rule of the irresponsible.

A final solution of this problem cannot come through arraignment class against class or man against man, but rather through the willingness of every man and every class to submit their cause to the judgment of impartial citizens and to abide by their decisions when fairly rendered. Otherwise, the sympathetic strike will be carried to an absurdity—to a point where the safety of the nation itself will be at stake.

But a few days ago we were advised that the grave-diggers in Budapest had gone on strike because their business, which had flourished so under the regime of Bela Kun they had been able to earn from fifty to one hundred crowns a day, had since the Soviet was driven out decreased so they had been unable to make a fair living. It would seemingly be reasonable to presume that in answer to this plea the affiliated organizations having control of transportation and the supply of food and fuel will go on a sympathetic strike so that a sufficient number of citizens will starve or be frozen to death in order to bring back the days of prosperity to the grave-diggers.

If one class of citizens can cease functioning in order to gain a selfish end, then the same privilege must be permitted other classes. The banks of the country must have the right to close simultaneously, refuse to grant credit or disburse funds until such demands as they may make for compensation and other special privileges are satisfactorily met. The coal operators must be allowed to close their mines at a period when the demand for fuel is greatest, in order that they may force the railroads to haul their coal for say half of the existing rates. The doctors shall be permitted to refuse to heal the sick and relieve suffering until proper regulations are adopted for their protection and for increasing their prosperity.

The leader of labor, the leader of capital and the rank and file of American citizens must realize that he, as an individual, is a component part of the state and that his obligation to the state is as real as his duty to himself. In mapping out a plan for himself or his particular class, the man who sees but one side, and that his own; who does not recognize his personal obligation to a society as a whole, is a menace to the principles of freedom and if he perseveres in his course to secure for himself what he can at the expense of his neighbor, must be dealt with as an enemy of the nation. Faith in American ideals and in the love of fair play, which is a component part of the make-up of every true American citizen, whether he be

rich or poor, justifies us in the belief that these problems can be successfully dealt with and the situation adjusted in fairness to every class.

As bankers we must be prepared to meet these issues in the same way we answered the seemingly impossible demands upon our time and energy in connection with the several Liberty Loans. Co-operation and self-sacrifice made our efforts successful, and we must again be prepared to put the public weal ahead of our individual interests; fight for those economic and social fundamentals which make for real liberty; work in behalf of organization as opposed to chaos and be fearlessly outspoken against those movements, whether they come in the guise of labor or capital, which are conceived in selfishness and which attempt to gain their ends by over-powering brutal force, rather than through submission of their cause to a proper tribunal.

Let us reason and encourage co-operation; let us help keep alive the spirit of unselfish service which was born during the recent war; let us take full advantage of our opportunity to meet and know well every class of our citizenship and the intimate relation of counselor, adviser and trustee we bear toward the public at large, to advocate American principles—to teach American ideals.

Bankers, as a rule, have been opposed to taking an active part in state or national politics, but the day is here when we must prepare to take part in guiding and controlling the affairs of the nation, even though this activity demands our becoming personally closely identified with politics.

We may not be active in partisanship, but we must always be active in our Americanism and make our Americanism the guide of our politics.

Let us help put into office those men who have the courage to act fearlessly in the face of unjust influences and who are willing to jeopardize their own political future that their state and nation may be safe. Can we not make politics really mean good citizenship? Can we not be the deciding factor in the contest between those who are for themselves and those who are for America? The bravery, the intelligence and energy of the bankers of America have been challenged. If you believe in America, if you believe in Liberty, if you believe in God, let your answer to the anarchists, to the bolshevists, to the forces of selfishness as they attempt to storm the strongholds of justice and menace the free institutions of America be framed in the immortal words of the gallant Petain, "They shall not pass!" (Applause).

**PRESIDENT McADAMS:** The next order of business is the report of the Chairman of the Executive Committee, Mr. A. A. Crane, of Minneapolis.

## REPORT OF CHAIRMAN OF EXECUTIVE COMMITTEE

A. A. CRANE

Immediately following the annual meeting of our Section in Chicago September 24 last year your Executive Committee met and proceeded to organize by the election of Mr. Raymond F. McNally as Chairman and the re-election of Mr. Jerome Thralls as Secretary. The plans for the various activities of the Section as discussed in the reports of your officers at the last annual meeting and at the various meetings of the Executive Committee were regarded as well settled and we all felt very comfortable, knowing that the activities in the hands of Mr. Thralls would be most ably handled. There was no other business of importance at that meeting.

In the early winter through the influence of our good friend and worthy ex-President, Mr. McHugh, the enticing bait of a bigger job was held up to Mr. Thralls and naturally he fell for it, and shortly before the first of January assumed his duties as Secretary and Treasurer of the Discount Corporation of New York. Mr. Thralls' withdrawal from the activities of the Section made it immediately necessary to secure some one to take his place, and shortly after the first of the year Mr. Amos F. Hill was elected Secretary of the Section, and although unfortunately incapacitated by ill health through the early part of the year, took up his work actively and with much enthusiasm and by the time of the spring meeting of the Council had the business of the Section pretty well in hand. Shortly before the spring meeting Mr. Stoddard Jess, on account of the pressure of other business, resigned as President of the Section and the Executive Committee was obliged to reluctantly accept his wishes. Your Executive Committee, therefore, found it necessary at the spring meeting held at White Sulphur Springs, May 19, to entirely re-organize. Mr. Thomas B. McAdams was elected President, Mr. Raymond F. McNally Vice-President of the Section and the speaker Chairman of the Committee. Mr. Jerome Thralls was elected as a member of the Executive Committee to fill the vacancy caused by these changes. Mr. Thralls had during the winter devoted quite a considerable amount of time to the interests of the Section, assisting Mr. Hill and doing such things as were necessary during Mr. Hill's illness.

The spring meeting of the Executive Committee was an exceedingly interesting and profitable one. Reports of the Secretary and of Mr. McNally, who was then Chairman, indicated that the various activities of the Section had been carefully looked after and during the whole year the interests of the Section have been intensively promoted and the Secretary's report will cover these matters in detail. A very considerable discussion was held over the question as to what would be of most interest to the Section members and to what particular

lines of work the Executive Committee, the officers and the various subcommittees should devote their energy. The following suggestions were regarded, after discussion, as being the most important, viz:

1. The revision of its Book of Forms and the printing of the forms referred to therein, so that they may be made available, either singly or in book form.
2. Developing a plan for the analysis of accounts of individuals, firms and corporations.
3. Encouraging annual conferences of clearing house managers and examiners.
4. The extension of the clearing house examiner idea.
5. Encouraging closer co-operation and wider activity on the part of all clearing house associations.
6. Encouraging the organization of clearing house associations and country organizations.
7. The organization of efficiency and publicity committees in clearing houses; the committees to give their attention to, (a) the development of labor-saving devices; (b) handling the community publicity and bank advertising; (c) control donations to charitable and public purposes and to handle such other matters as might properly be referred to such committees. An arrangement might be made for an exchange of advertising and publicity material among the various committees through the agency of the Clearing House Section.
8. The establishment of credit departments in clearing houses.
9. Aiding the treasury, contract division and various other departments of the government in the financial and general war program.
10. Creating a committee to make a study of interest rates, service exchange and collection charges. This committee to report to the Executive Committee at the earliest possible date.
11. A campaign of education and publicity designed to inform the public as to the true functions of bank and the objects and purposes of clearing houses.
12. Assisting and encouraging in every way the national movement to create new savers and to drive home to all America the lesson of thrift and industry.
13. Assisting the Capital Issues Committee in its campaign to minimize the fake, bogus and worthless securities evil.
14. Aiding in the direction of credit into the channels of essential production.
15. Aiding the Federal Reserve Board and the Federal Foreign Exchange Committee in their efforts to stabilize and protect American exchange relations with other countries.
16. Co-operating with the Committee on Federal and State Legislation on matters of common interest to the associated banks of America.
17. The creation of a committee charged with the responsibility of

studying world conditions, with the view of preparing and submitting to the Executive Committee plans under which the various clearing houses may serve to best advantage in order to give the nation its greatest financial and commercial strength.

Much work has been done along all of these lines this year. For instance, with the hope of arousing interest in the work of the Section detailed proceedings of the spring meeting of the Executive Committee were printed in full and copy was forwarded to each State Representative, together with a letter from your Chairman calling attention to the details of the report and particularly to the schedule of activities, and asking these various gentlemen for comments and constructive suggestions. A few of the representatives responded, but I regret to say that most of them ignored the communication entirely, and I am, therefore, obliged to conclude that at least as far as they are concerned, the activities of the Section are of no interest. I trust we may be more fortunate in those selected as State Representatives for the coming year. The comments of some of those who replied were of interest and I will take the liberty of quoting a few, viz.:

1. "I find much to commend and nothing to criticize in the plans you have laid out for the work of the Association and the report of the work already under way. It would seem that much of the benefit which will result from the work of your Section through the clearing houses, will be to educate the individual banker to realize that he is but a part of one great machine of business and that in the measure he understands the workings of the entire machine, he will be able to contribute to its smooth operation."

2. "Your committee has undertaken a tremendous task. To devote its energies to the seventeen different lines of activity will bring about unquestionably much good. The accomplishment of any one or more will result in better understanding, by the people, of the functions of the clearing house and the benefits that flow from it to banks, banking interests and the people in general. I can make no suggestion of other activities it should undertake. It will be a pleasure to assist you in every way possible."

3. "I have not had time to go through the report carefully until today, and cannot for the life of me, make any suggestions that have not already been covered by your good body."

4. "Your schedule of activities for 1918-1919 is very important, but, in my judgment, special attention should be given to Nos. 8, 10, 13 and 15.

#### **"8—THE ESTABLISHMENT OF CREDIT DEPARTMENTS IN CLEARING HOUSES:**

"This would be of great value to the banks, both large and small, and in all probability, would go a long way toward increasing the membership. While the large financial institutions can afford to main-

tain an up-to-date credit department, it is too expensive for the smaller ones. It has been quite popular since the war began for large concerns to do their financing through the sale of notes running from one to ten years, which makes it possible for a bank limited to extending a line of credit of say, \$5,000.00 to participate in these big financial undertakings; whereas, in former times, our large industrial concerns would not have considered for one moment giving notes in denominations that would be within the reach of our thousands of small banking institutions throughout the country. If up-to-date credit departments were maintained by the clearing houses of our large cities, the information desired by the banks purchasing the paper could be easily obtained, and this in all probability would stimulate the employment of their idle funds in investments of this kind.

**"10—CREATING A COMMITTEE TO MAKE A STUDY OF INTEREST RATES,  
SERVICE, EXCHANGE AND COLLECTION CHARGES**

"Unless something is done along these lines, the banks will feel very keenly the unscientific system that now prevails in the event that rates for money should go as low as they did prior to the outbreak of the war in Europe. Since 1914, money has been practically ruling around 6 per cent., and this has enabled some bankers to run wild in the payment of interest rates. The extension of clearing houses would naturally lower exchange and collection charges.

**"13—ASSISTING THE CAPITAL ISSUES COMMITTEE IN ITS CAMPAIGN TO  
MINIMIZE THE FAKE, BOGUS AND WORTHLESS SECURITIES EVIL**

"Never in the history of the country have there been so many worthless securities offered on the market, and something should be done to protect the innocent investors. This, in my opinion, is one of the most important matters for the American Bankers Association to investigate and strongly urge Federal action.

**"15—AIDING THE FEDERAL RESERVE BOARD AND THE FEDERAL FOREIGN  
EXCHANGE COMMITTEE IN THEIR EFFORTS TO STABILIZE AND PROTECT  
AMERICAN EXCHANGE RELATIONS WITH OTHER COUNTRIES**

"It is becoming more and more impossible for our large manufacturers to sell their goods abroad owing to the present demoralized conditions of exchange. We have the commodities to sell and Europe wants to buy them, but it is only natural that England, for instance, should purchase where the pound sterling commands the highest figure. This problem of stabilizing exchange is a most serious one, and it should receive the best thought of our foremost international bankers."

I think the above points are well taken and that we should certainly consider the matters which they suggest.

At the annual meeting in Chicago attention was called to the good work which had been done by a committee appointed in 1914, whose special work was to arouse interest in the country check clearing house scheme, and a new committee was appointed and instructed to again take up that work. The speaker happens to be chairman of that committee, together with Mr. W. F. Augustine and Mr. F. K. Houston, and I think it not out of place to include the report of that committee herewith, viz.:

Immediately following the first of January the committee began the collection of statistics from the various country check clearing houses which are operated at Atlanta, Detroit, Kansas City, Louisville, Nashville, Oklahoma, Omaha, Richmond and St. Louis. These statistics were carefully compiled and compared with a similar group of figures collected for the year 1915, and the results, together with considerable reading matter and arguments in favor of such clearing houses were published in a booklet, which is made a part of this report. This booklet was sent to every bank member of a clearing house in the United States, with the request that the matter be given their careful consideration and considering the economy in handling items in this manner, they were urged to extend the operation of these country check clearing houses in their own locality.

Now that the tremendous stress of activity attending the war, coupled by Liberty Loans, Red Cross and other campaigns, has passed and the bankers have more time to consider the operation of their own business, I believe that this propaganda can well be cultivated, and if adopted by the various clearing houses throughout the country, would, I am confident, result in a very material economy in handling country checks of the banks adopting the plan.

I have already taken up more time in making this report than I intended, as your President has covered the activities of the Association fully, and in a most able manner, and the report of your Secretary will give you details of the activities of the Association much better than I am able to do, because of his close day-to-day connection with the operation of the details of the Section.

In conclusion I desire to say that in my opinion this Section has in the past done a large amount of constructive work of great benefit to the banks of the country and there is still much to do, and if the members of the Section are willing to give it even a small measure of their constructive thought and devote a little of their energy toward developing the activities which may be suggested from time to time the Section will continue to be a desirable factor in the American Bankers Association and of much benefit to its member banks.

Our business, social and economic life have been tremendously disturbed—this is always so after a war—and this the world's greatest war has left things everywhere topsy-turvy. We are all struggling for

a way out. Credits have been over-strained, the gauge of values has been lost, and feverish unrest has seized upon the world. We may be sure, however, that nature's law of order will not fail to work out in due time the restoration of social quietude. The Clearing House Section through its various influences, can take a firm and strong hand in restoring order and quieting discord, and it is our high privilege and duty to take a conservative and sane attitude toward the restoration of business and harmony in this war wrecked world.

I thank you. (Applause).

The report of the Secretary, Amos F. Hill, was submitted without reading. It follows:

## REPORT OF THE SECRETARY

### AMOS F. HILL

Your secretary presents his first annual report. His occupancy of this office covers but three quarters of the present fiscal year. He assumed the position in January, 1919, succeeding that very able executive, Jerome Thralls, who resigned to accept new responsibilities as secretary-treasurer of the Discount Corporation of New York.

At the last annual meeting of the Section a comprehensive schedule of activities was prepared, for the ensuing year. This schedule has been closely followed—many of the important features have been carried to completion—with resulting benefits of great value to the banking and business interests. Others have been advanced and are still being given careful attention.

One of our principal endeavors has been to increase the number of clearing houses in the United States. Another has been the institution of country clearing departments in clearing houses already in operation. Your secretary takes pleasure in reporting the organization of nine new clearing houses during the year just closing. There are now 243 regularly organized clearing houses in the United States.

Since our last annual meeting, personal visits have been made to clearing houses in Middle and New England States, with the purpose of studying the methods employed in their operation and aiding in the introduction of new ideas which would enable these organizations to more efficiently serve their members.

During the past six months, the Section has perfected its standard form of financial statement for the use of banks, bankers and brokers in connection with commercial paper placed in the open market. This form has met with favor and we confidently hope for its general adoption. A large supply of these forms was forwarded to the Governor of the Federal Reserve Board for the use of and distribution by the



Federal reserve banks. Likewise a plan has been devised whereby "telegraph non-payment" instructions are automatically conveyed by a symbol incorporated in a rubber stamp. These stamps are furnished at cost by the Section. The plan is simple and effective. It can be used to advantage by any banking institution.

Since taking up the duties of this office, your Secretary has found the demands upon his time constant and regular. His duties have proved absorbing and pleasant. In every undertaking he has received cordial and generous co-operation from all the officers and workers of the Section, as well as from all the executives and others connected with the American Bankers Association with whom he has been privileged to come in contact. He especially desires to express his deepest gratitude to his predecessor, Mr. Thralls, whose invaluable advice and intelligent assistance have been so often and so cheerfully given.

The following activities are recommended for the Clearing House Section during the coming year:

1. Encourage—
  - a. The inauguration and extension of the Clearing House Examiner System.
  - b. The establishment of credit departments in clearing houses.
  - c. The formation of new clearing houses—city, county and country—making a special effort on county organization plan.
  - d. The organization of efficiency and publicity committees in clearing houses. These committees should give their attention to (1) the development of labor-saving devices; (2) handling the community publicity and bank advertising; (3) the handling of donations to charitable and public purposes and such other matters as might properly be referred to such committees. An arrangement might be made for an exchange of advertising and publicity material among the various committees through the agency of the Clearing House Section.
  - e. The establishment of country clearing houses in the important cities not served by a Federal reserve bank or branch thereof.
2. Create a committee to make a study of interest rates, service, exchange and collection charges. This committee should report to the Executive Committee at the earliest possible date.
3. Inaugurate a campaign of education and publicity designed to inform the public as to the true functions of banks and the objects and purposes of clearing houses.
4. Aid in directing credit into channels of essential production.
5. Aid in the effort to stabilize and protect American exchange relations with other countries.

6. Cooperate with the Committee on Federal and State legislation on matters of common interest to the associated banks of America.

7. Encourage the widest possible use and the proper application of the Universal Numerical System.

8. Create a committee charged with the responsibility of studying world conditions, with the view of preparing and submitting to the Executive Committee plans under which the various clearing houses may serve to best advantage in giving the nation its maximum financial and commercial strength.

We trust the coming year, fraught as it is likely to be with mighty and absorbing questions that touch our realm, will find us ready to meet the challenge. It is our hope that by proper application of the lessons learned in the past, and by close adherence to the helpful rules laid down for our guidance, our Section will not only conserve the banking interests of the nation, but even contribute its bit to the welfare of mankind.

PRESIDENT McADAMS: I would like to announce at this time the Committee on Resolutions and Reports:

Mr. A. D. Graham, of Baltimore; Mr. Alex. Dunbar, of Pittsburgh; and Mr. Frank W. Crane, of Birmingham; Committee on Nominations, Mr. F. A. Crandall, of Chicago; Mr. H. Warner Martin, of Iowa; and Mr. J. B. Lambertson, of South Dakota.

President McAdams then introduced William C. Cornwell of J. S. Bache & Company, New York.

MR. CORNWELL: I wish to convey to you Mr. Wexler's expressions of great regret at not being able to be here today to deliver his message to you.

I know Mr. Wexler was looking forward with the greatest pleasure to the opportunity afforded of saying a few words to this important section of the A. B. A., in which at one time he was quite active and of which he once had the honor of being president. He also wished me to tell you that he regretted exceedingly that the strenuous times through which we are passing have given him too little time to make a genuinely critical study of the subject and to prepare an address entirely worthy of such an intelligent and discriminating audience.

He trusted, however, that under the circumstances you would be content with a brief expression of his views upon the subject which had been given him.

## THE CLEARING HOUSE A FACTOR IN FOREIGN TRADE DEVELOPMENT

SOL WEXLER

As clearing houses are merely associations of banks primarily to facilitate their daily transactions, the subject should more properly be "The Relation of Banks to Foreign Trade Development." The necessity of promoting and aiding foreign trade can best be stated in the declaration of the seventh annual meeting of the Export Group of the American Chamber of Commerce, dated May 1, 1919, as follows:

"The stimulation and development of the nation's international trade is vital to the country's prosperity and the solution of its economic and industrial problems. Organizations should direct the attention of their members to the importance of this subject and the necessity for encouragement and support of all measures which will facilitate and enlarge American trade with other countries, extend American banking and insurance to accompany and supplement the foreign enterprises of American commerce, and provide adequate cable and wireless facilities."

and the relation of banks thereto can be summed up in the few words that without the moral encouragement and financial assistance of banks foreign trade development is impossible.

Failure on the part of banks to render such assistance affects the whole commercial, financial and economic structure and will create problems the solution of which may involve us in serious difficulty. I make this statement because there is no single individual, however humble may be his occupation, and no line of business, from the most insignificant to the most important, that is not immediately concerned in the development of foreign trade, and such being the case banks, the fountain heads of business and upon which all reactions, whether favorable or unfavorable, are immediately registered, are the ones most directly concerned.

The great balance of trade in our favor during the war, which filled our coffers with the gold supply of the world, will rapidly disappear if we fail to grasp the opportunity which we now have of continuing to control a liberal share of the world markets for our surplus merchandise and manufactured goods and in return to find a local market for a reasonable proportion of the production of other countries so that exchange between us and them may be stabilized.

Our merchant marine, which for a century amounted to nothing and which now, through force of circumstance and despite governmental incompetency, has reached a position of importance, will again languish if cargoes both ways are not provided, and in consequence our budding ship-building industry with its great consumption of stable products

and vast employment of labor will return to pre-war conditions of stagnation. With the export trade goes the insurance of cargoes, the employment of freight cars, the victualing and coaling of ships, the employment of warehouse and dock space, the continued employment of labor, so that it can be seen how intimately our general prosperity is connected with our foreign trade. A number of banks have established important branches in foreign countries. If we do not continue to develop our foreign trade these will be merely vehicles for financing and facilitating the business of our competitors.

We come now to the practical side in which banks can lend their necessary assistance. The volume is of such magnitude and the sums involved so great that the business is far beyond the financial capacity of individuals and of but a small percentage of firms and corporations. The export and import business must of necessity evolve more or less into a specialty business, each becoming experts in particular lines. Merchandise must be manufactured requiring capital or credit until the shipment is assembled. The financing of such transactions is a proper function of the local bank. The shipment then goes forward either against a through rail and sea bill of lading or on a local bill of lading to the port. The local bank then needs reimbursement and the bank at the financial centre or at the port commences to function and must advance against the bill of lading. If, as was the case before the war and as will be the case in course of time, a regular demand sixty or ninety-day bill could be drawn against a confirmed or an unconfirmed credit the transaction would be simple, but at present the foreign buyer needs longer credit, and the accepting banks and merchants are no longer in the same financial position as before the war, nor are the governments of the countries in which they are located sufficiently stable, in many cases, to make the transaction as free of risks as formerly, and yet the business should and must be done. To illustrate a transaction now pending in which a syndicate of foreign spinners wish to buy 20,000 bales of cotton: each member of the syndicate is liable for his proportion, seven banks in and around the capital of the country propose to accept the bills, all seven of the banks are jointly responsible for the whole; they are willing to pay a fair price for the cotton as well as for the credit, but they want to buy on six months' credit with three renewals, or eighteen months. Such a transaction is a reasonable business risk, but is too much for any one bank to undertake and should be syndicated and banks throughout the country should take part, each in proportion to its financial ability. It is by such means that the financial assistance can be rendered.

The moral assistance and encouragement can be furnished in many ways and in many directions. First, by showing the exporter how the transaction can be handled and not merely turning him down. Second, by allowing documents to be taken out in trust on trust receipts to be

exchanged for ocean bills, and, third, by furnishing credit information as to the standing of foreign firms and, further, by performing various small services not strictly, perhaps, within the function of the bank and often troublesome to loan clerks and bank officials, yet necessary until the business is properly under way and working smoothly.

Bankers have never yet fully realized the tremendous influence which they can exert. It was somewhat demonstrated in the framing of the Federal Reserve Act. They are like sleeping giants in this respect. This influence should be exerted in a big and broad way and among the things in aid of foreign trade that might be accomplished would be to demand of Congress an appropriation for the establishment of a school of consular agents so that our commerce would be represented by men qualified for the job, paid well enough to make it attractive, and not by political appointees without experience and training.

Banks can use their influence to have the old cry against so-called "dollar diplomacy" relegated to the scrap-heap, for I am sure you all agree that the American dollar, if honestly invested, is entitled to protection, whether it be in Mexico or in Timbuctoo. It was never anything but a political catch-penny phrase (like the "free breakfast table" in the tariff discussions.) Every American ought to be made to feel that the Department of State is ready to give ear to his complaint and if well founded will take such action that no man and no country will have the temerity to confiscate, unduly tax or defraud an honest American enterprise or investment. Bankers may use influence to have the Sherman Anti-Trust law so amended or construed as to enable business to be done in a big way, so that concerns may join issues and combine capital and create economies of management and operation that will better enable them to compete with countries not hampered by similar legislation. Bankers may use their influence, and this refers more to the so-called country bankers, to see that men of sound business judgment, of unflinching patriotism, who put the welfare of the whole country above partisan politics and who have a decent regard for the rights of all men, whether owners or workmen, are sent to Congress.

Much has been said in the press and by public speakers upon the subject of providing funds for the rehabilitation of devastated areas in Europe, for the erection of public buildings, bridges, roads and other permanent improvements, a function which in my humble opinion banks should *not* perform except perhaps to a very moderate extent, and then only as an intermediary between the borrower and the investor.

The conversion of liquid capital and credit into fixed investment is always dangerous and should be done from gradual savings and accumulations not needed in the channels of trade. Such investments in the Argentine caused the failure of the great banking house of Baring Bros. in London in 1890, from which a world panic ensued. Rehabilita-

tion and reconstruction should be slow and gradual and should not be permitted to interfere with the needs of trade and should be the inducement of the particular community to save for this purpose. While we should exert every means to provide credit for raw material and manufactured goods and for agricultural implements and labor-saving machinery to take the place of man power, we should not flood the country nor fill up bank portfolios with bonds of foreign municipalities and political subdivisions except to an amount which will represent a small percentage of idle funds in this country seeking investment.

After the Civil War it took many years for the devastated area, caused by Sherman's march to the sea, to be reconstructed, and it was finally done by the people of the immediate section out of their own resources and accumulations.

In conclusion, we owe it to the community in which we live, to our farmers, laborers and manufacturers, to the whole country itself, to help stimulate, finance and encourage international trade along intelligent lines; always, however, having in mind the old adage that charity begins at home and that the paramount duty is to keep the home fires burning.

PRESIDENT McADAMS: I have the additional pleasure of introducing the son of a son of Virginia, now living in Georgia, a whole man, a whole preacher and a whole American, who I feel certain will interest you to the fullest extent. It gives me great pleasure to present Dr. H. Ashby Jones of Atlanta, Ga. (Applause.)

## THE CLEARING HOUSE, THE HEART OF THE FINANCIAL WORLD

DR. H. ASHBY JONES

I don't know anything about finance and you don't know anything about philosophy. We are even, then. But where a preacher dares to figure on a subject of finance he has got to put it back hard against the financial classification. To my mind, a man's heart is the clearing house of the body; it peruses all of the ailments of the blood for purification and then it is pumped back even to the very tips of the fingers and thus does its life work.

I think of the clearing house as a meeting place to replenish the countless ailments of credit that flow into it, then by a system of readjustment and balance they are purified and pumped back to the life of the commercial world. I know over and over again disease is often diagnosed as heart trouble when as a matter of fact the trouble

originated somewhere in the liver, or kidneys, lungs or even in the tips of the fingers and as a matter of fact the heart simply registers the same business influence in the body. I understand that is just a function of the clearing house.

The clearing house itself is not the financial treasury but the administrator of the financial world. The heart of the financial world shows symptoms of disease sometimes; then we laymen put down the papers and pick up the clearing house report for the week. According to the rise or fall of the figures, we see we have got bit and feel we know all about it. As a matter of fact, I believe you experts as well as we laymen have over and over again made the mistake of looking simply at the face of figures. Money in itself has no value, money is only the representative of value. Money is only the term of exchange and until one has been enabled to look at it in figures and through figures and to read that which is back of it, for which it is significant, and for which it stands, we are not doing our duty to ourselves. I insist that any man who is going to be generally successful in the great financial world must have that something that we call acumen. I insist that he should be able to look through figures and see the great human element back of the figures and give the figures their actual value and significance. I insist that he should have a mind so sensitive that he could run the whole gamut of the scale of human emotion, because after all it is that dynamo that drives the wheels of the world's commerce.

I often think the human heart has the title of clearing house and at the end of a banking day is so sensitive that it becomes conscious of the human element like that countless current of checks passing through like a panorama of life. If checks could talk, how you would hear the story of life! Here is a young life itself, planning for its future, and grows, and this plan further pictures the head of a home; and here is a check that is the picture of parental life; and here is a check with all the throbs of human sympathy with the object of preparing for the day when winds and storms descend; here are checks that tell the story of great institutions that are growing slowly but surely to extend their arm in happy production of some great need in the world. Here, I maintain, is after all the very heart of your community.

I want to tell you the banker is a lender, is a trustee, and if you will let me coin the word, a truster. He must make a position in his community and he must create credit in his community. He is the most constructive person in the entire community in the building of its character. Ah, then the banker himself is to be trusted! But I maintain that no man can ever measure up to his trust until he knows the value of that which is entrusted to him.

I tell you a dollar can be a dollar and tainted, but nevertheless a

dollar can be redeemed with ideas, with honor and morality. Now back yonder in 1917, when we were entering the great war, the world said, "They are merely a nation of money makers." Yes, we are a nation of money makers—and I repeat it with pride. Ah, but those who sneered didn't know the meaning of money. They didn't know what American money represented. Our first great act was the great loan to our Allies. Bankers of America, when we poured our nation into France, we poured our faith into France. We didn't simply say, "We believe France will live." We said we believed France ought to live. Our men followed the pathway of our faith—two million in khaki, the vanguard of the army that was to follow and encounter death at Chateau Thierry, with never a backward step until it had crossed the Meuse. (Applause).

I said you ought to guard credit. This, sirs, was told me by one of your very prominent members some years ago. Back yonder in a southern state is a boy. He took some insurance policies, and went in to see the leading banker of some community and he said, "I want to borrow five hundred dollars." The banker said to him very quickly, as he looked him in the eyes, "Certainly, I will lend it to you." They arranged the note and the boy handed him his insurance policy. The banker put it aside and smiled, and he said, "I don't want that; if I needed that in order to get my five hundred dollars back I would not loan you the five hundred." The boy got up from there and put his collateral in his pocket and walked out, with his head a little bit higher than ever before with the consciousness, my name is worth five hundred dollars, by George, I will make it worth a thousand!

Do you know the credit of fairyland? The credit of fairyland is this: That to be responsible one must first be loved. Can I paraphrase that in finance? To be trustworthy one must be trusted. Character isn't bond. Character cannot be manufactured. Character grows. Innocence isn't character. You never test the temper of a soul until you trust it.

There stands young manhood upon the very threshold of business. Oh, what latent possibility for good or for evil, what trials, what carefulness follows to guard failure or success. Young manhood standing there facing the crowd, greeting that crowd in the functions of society. I say to you, trust them. It is a splendid adventure in the realms of finance and notwithstanding this, it's real adventures that pays our banks. I would God that our United States Senate could catch this principle. There stands today the young democracy of the world. We have been asked, do you believe in Democracy and young Democracy of the world says to America, come, let us link together by faith and Democracy for the permanent business of the world. Is that America's voice we hear in the chamber repeating its creed, withholding, stammering, hesitating? I believe, but our belief is



confused with reservations. Now I know that was not the voice of America. I will tell you where we heard the voice of America. We heard the voice of America when our boys went over the top at St. Mihiel and out in the Argonne Forest to a hell without any reservations. (Applause).

I'll tell you when we heard the voice of America, we heard it when the bankers of America, without any reservations whatsoever, had faith enough in American ideals to underwrite American honor without reservations, for the American bankers enabled this great nation of ours to build our buildings upon the altar of liberty, when you enabled us to pay our own way from New York to Sedan and never asked the world for one dollar in return. Oh, this is no more foreign land, France is doubly ours today, a plot there throbs with the heart of Americans asleep. There our mortal dead are, and I stand here today and I dare assert that there are a million khaki clad companions who have not forgotten the faith that leads to that place where their brothers lie fallen in France and who are ready to pledge themselves today without any reservations whatsoever that if the Hell of a Hun ever threatens to desecrate those graves, greater Huns shall once again pay the penalty of death by those who believe in American ideals without any reservations.

Representatives of the Bankers of America, I salute you on the beginning of a new year's work. I have plead for the spirituality of finance as I bid you Godspeed for another year. I have simply this to ask you, that you see to it that your clearing house remains the heart of your financial system. (Applause).

At this point the meeting was adjourned.

A paper by Wayne Hummer, president La Salle National Bank, La Salle, Illinois, on "The Need for Clearing Houses in Smaller Communities," was read to the meeting by R. F. McNally in the absence of Mr. Hummer. The paper follows.

## THE NEED FOR CLEARING HOUSES IN SMALLER COMMUNITIES

WAYNE HUMMER

Four years ago at Seattle I had the pleasure of listening to an address on county clearing houses by R. F. McNally, now of St. Louis, and so impressed was I by his eloquent words that upon my return home I told my banker friends that an organization of this kind was just what we needed in our own district. At that time we were all on friendly terms, but some of us had little more than a speaking ac-

quaintance with one another. As for co-operation, we simply did not know the meaning of the word, at least so far as local bank co-operation was concerned. A short time later an invitation to dinner was extended to all the bankers in our community, and before dinner was over, we had formed the Tri-City Clearing House Association, comprising the six banks of LaSalle, Peru and Oglesey, Illinois, towns which adjoin one another.

Words cannot tell how much this organization has meant to us. But if I were asked to state its advantages, I should place ahead of all else the fact that the bankers of our community now really know one another. We are, in fact, the very best of friends, and once there is this kind of a spirit it is needless to say that all else is easy of accomplishment. We have a set of by-laws, but they contain no hampering features, no rigid rules and regulations. Action of any kind can be taken only with the unanimous consent of all the banks. We have a president, vice-president, a secretary-treasurer and we hold regular monthly meetings, first at one bank and then at another. There is little or no expense involved, there being a nominal membership fee of ten dollars. When additional funds are needed, we simply levy an assessment.

At these monthly meetings each bank is represented by one and sometimes by more than one official, and we discuss everything of common interest. Not the least important matter that comes up before nearly every meeting is the question of loans to individuals who go from one bank to another seeking accommodations. Before the organization of our association we had no way of checking this abuse, but now each bank presents a list of names of borrowers at the meeting, or of those that he may desire to inquire about, and we have not infrequently discovered that some of our "good customers" were also "good customers" of two or three of the other banks. The remedy in cases of this kind is simple, and it is certainly advantageous to find out about such practices before they go too far.

There are, as you know, also some individuals who say, if you will not do it for me, the bank across the street will. A few years ago the concession asked for was usually granted in order to retain the business, but today, at least that's the way we do it, we call up the bank across the street and say, "If you will help us out, we'll appreciate it, and we'll do the same for you." The incident is then usually closed and instead of playing one bank against another without profit to either, the customer and the bank usually get together.

In order that the meetings of our association might be of more value to us, we decided at our last meeting to bring up for discussion at each of our winter meetings certain subjects in which we were all interested; and a committee was appointed for the purpose of preparing a list of subjects and of arranging for one or two bank repre-

representatives or officials to lead the discussion. We had talked of this before, but last winter most of the time of our meetings was taken up with the discussion and working out plans for doing our part of the war financing, and largely through the efforts of our association, not only our own district, but the entire county over-subscribed all of the Liberty Loan and certificate of indebtedness issues. When the government first called upon the banks for assistance our association volunteered its services, and the county chairmen for the Liberty Loan and certificate of indebtedness campaigns were both officials of banks of our local Clearing House Association. I merely mention this to show how, because of our organization, we were in a position to act at once and, therefore, able to render some assistance to the government when it was most needed.

When a number of progressive bankers began preaching the doctrine of country clearing houses a few years ago many other committees were quick to realize the advantages of country clearing house associations, and there are today upwards of two hundred and fifty clearing house associations in the country. However, I regret to state that there are many more communities with three or four or more banks where there is no organization, and, what is even worse, in some of these communities the bankers are not even on friendly terms.

The first question that is usually asked in connection with these associations is how to go about their organization. I have already told you about the Clearing House Association in my own community and I cannot see why the problem should be more difficult elsewhere, although possibly a more rigid set of by-laws might be advisable. In any event, our plan shows clearly how banks in a small community can co-operate through a local clearing house association. The Clearing House Section of the American Bankers Association is prepared to send proposed by-laws and any other information that may be desired in connection with the organization of an association. It is in reality a simple matter to form an organization. If one progressive banker in any of the smaller communities of the country today would undertake the organization of a country clearing house association there is little doubt that his efforts would bring about the desired results, because, as I have pointed out, conditions have gradually altered during the past few years.

Another question is, what are the problems that can be solved or how can banks co-operate through an organization of this kind? I have already mentioned the important subject of loans, and the old abuse of playing one bank against another, also how, when it is necessary for the banks to work together, as was well illustrated during the Liberty Loan campaign, a community where the banks are organized are decidedly in a more advantageous position. Then there is the question of interest on deposits, often the cause of friction between

banks; the deposit of public funds frequently not pro-rated between the banks; the charges for handling collections and also accounts where the average balance falls below a certain amount; opening and closing hours; the policy to be adopted in connection with answering inquiries. This is a courtesy extended by all banks, but it is frequently abused, especially by the mercantile agencies. Then there is the question of the policy to be adopted in connection with the safekeeping of securities and the rental to be charged for safety deposit boxes, not to mention many other problems which come up from time to time.

I do not mean to say that a clearing house association will solve all of these problems at once, but most of the abuses can be corrected and there are, indeed, few if any problems that cannot in time be solved.

The economies alone that can be effected in the clearing of items where the volume is large, are enough to warrant the formation of a clearing house association. In some of the smaller communities, however, this function is not so important, but in solving problems such as those previously mentioned, many abuses are not only prevented, but economies as well are effected.

These organizations operate almost without effort on the part of anyone. The by-laws provide for the time and place of the meetings and these may be altered or amended at any regular meeting, provided all agree, and as to expense, there is practically no additional expense. What expense there is would in all likelihood be incurred anyway, but instead of being paid by each bank individually where all the banks are interested, as would be the case where there is no association, the secretary of the association now pays the bills, and as his duties are not much of a burden, he is usually glad to serve without compensation.

Although the subject of my address is "Country Clearing Houses," country bank co-operation is really what we are after, and I, therefore, want to take this opportunity to tell you something about Illinois county federations. The main purposes, in fact, of the county federation and country clearing house are almost identical in that each is organized primarily for discussion and working out plans for the solution of banking problems.

For the past few years I have been Chairman of the Committee on County Federations of the Illinois Bankers' Association, and during this time our committee has organized county federations in some forty counties. Although two or three years ago it was at times difficult to arouse sufficient interest, to get even a majority of the bankers in a county together, conditions have gradually altered and it is now a comparatively simple matter to organize a county federation, and for this reason I am sure we are going to see more co-operation between country bankers in the future than in the past. During the

Liberty Loan and other campaigns of a similar nature they were thrown together and became acquainted with one another.

These first federation meetings are usually of especial interest, for bankers who for years have lived ten or twenty miles apart often meet each other at these meetings for the first time, and almost invariably, they end up with an enthusiastic endorsement of the county federation idea.

Our county federations in Illinois are contributing in no small measure to making the Illinois Bankers Association a great organization. Ninety per cent. of the counties are now organized. They hold spring and fall meetings at which there is a freedom of discussion of current banking problems, not possible at state or even group meetings. Some time in the near future, we are planning to have a meeting of the county chairmen of these organizations. Country bank co-operation will be the keynote of this convention, and one of the main purposes of the meeting is to work out a definite plan for the organization of country clearing houses through the county federations. Without complete harmony and co-operation between the banks in the smaller communities, the county federations will be hampered in all their work. We hope, even in communities where there are only two or three banks, to induce these banks at least to work together toward keeping the local situation in hand.

It has always been a comparatively easy matter to induce the banks in the cities and larger communities to support our state association, but this has not always been the case with the banks in the smaller communities and rural districts. We want every bank in Illinois to be a member of our association, and in order to interest the banks not already members, we realize that we have to do something for them and this we are trying to do through county federations.

The following incident is an illustration of the actual results being accomplished by Illinois county federations. Less than a year ago I called upon the bankers in one of our prosperous Illinois cities, which was the county seat, and asked them to act as hosts to the other bankers in the county in order that we might organize a county federation. Much to my surprise I found that the bankers in this community were not even on speaking terms. In fact, they had not spoken for twenty years, that is, two of the bankers. Their quarrel grew out of the desire of each to obtain the administration of a certain estate. After some persuasion, however, they consented to act as hosts to the other bankers in the county and at the dinner, in the presence of their friends, shook hands and buried the hatchet forever.

Illinois bankers are now acquainted with the bankers in the neighboring communities. They are working together for their mutual interest, and the day is not far distant when these organizations are going to exert a far more potent and beneficial influence than at present.

As stated previously, our work of organization is now nearly complete. A meeting to be held in Chicago will be called some time in the near future of all the county chairmen and at this meeting we intend to work out some plans for definite and uniform action throughout the state.

How well I have succeeded in impressing upon you the need for country clearing houses, I do not know. This much, however, I am sure of, and I know that you will agree with me. The country banker of America has a great responsibility, greater now than ever before. Frequent conferences with fellow bankers will, I claim, make the country banker a broader, bigger and better man, and he will thereby be better enabled to fulfill his mission as adviser and counsellor of his customers.

In fact, the country banker must extend his vision far beyond the boundaries of his own locality. We find the problems of the world at our very door step. These must be solved and the country banker of America must not shirk his responsibility.

## SECOND SESSION

The second session of the Clearing House Section was held in the Statler Hotel and was called to order by President McAdams at 2 o'clock P. M., Wednesday, October 1.

**PRESIDENT McADAMS:** Any introduction of our first speaker this afternoon to American bankers is absolutely unnecessary. I am sure I voice the sentiment of all others when I say that we are delighted to have the pleasure of welcoming to the Clearing House Section perhaps the greatest outstanding figure of American banking life, who, perhaps, has done as much constructive work for real banking as any other man in this country, Mr. George M. Reynolds of Chicago. We are particularly fortunate in having Mr. Reynolds speak upon a subject so important to us at this time, "Domestic Construction Problems." (Applause.)

## DOMESTIC RECONSTRUCTION PROBLEMS

**GEORGE M. REYNOLDS**

At the very outset of my remarks I want to declare my pleasure in being able to be with you today and renew the old time acquaintances in the American Bankers Association. I think it was thirty years ago that I first began attending the American Bankers Association conven-

tions, since which time the annual conventions of the Association has been about the most pleasurable event I have to look forward to. I have often said that this Association has presented the avenue into which, and through which the young bankers of America have been enabled to express themselves, and it has been the route through which they have traveled to promotion and advancement in their own respective sphere of activity. I feel complimented that there is anybody here today to listen to a talk as warm as the weather is, and I have not come with any prepared speech to read to you. I have come in the spirit of just having a heart to heart talk in the way of a conversation and discussing several things that appear to me to be very important in our industrial and commercial life at this time.

I am glad that I am a banker. I congratulate you gentlemen upon your being members of this profession. I say this for many reasons, for without doubt it is found that the conduct of the average banker during the war, and the willingness with which he has gone to sacrifice and the patriotic endeavor which he has put forth to help the government in every possible way was no small factor in the wonderful achievements of this country. Secretary Daniels said in Chicago a year ago that the counting rooms of the banks of the country were the clearing houses of patriotism, and I think you gentlemen are willing to agree with me that that statement was well spoken.

I am not here today with any recipe which I am willing to recommend as a sure cure for all of the troubles and the ails that exist in our commercial and industrial life. We have many problems which are important in our financial, industrial and commercial work. I think as bankers you will realize that a discussion of any one of these problems would require a very much longer time than has been allotted to any one of these speakers. Therefore, we must, in discussing the matter, be rather general in our terms and discuss those things which perhaps touch the greatest number of people in this country. We have many important problems. One of the most important and perhaps one of the longest standing is the railroad problem. I don't propose to suggest any remedy for that because Congress has that particular matter in hand at this particular time. It seems to me that the ultimate settlement of the railroad question which carries with it finality and brings satisfaction to the public presupposes a state of public opinion which considers that the public must pay freight according to the character of service which it demands.

To my mind the railroad question will be easily and quickly solved whenever the bulk of the people of the United States understand that it is a law in economics. I think one of the greatest troubles in the treatment of the railroad problem has been the fearless, I may say the reckless way, in which it has been studied, because each man or each set of men representing different characters of business or different

classes of citizens has viewed it differently. Nearly every Chamber of Commerce in the United States, and almost every city of any size has a Chamber of Commerce, has employed among others an expert, whose duty it is to study proposed rates of freight, and whose purpose it is to keep these freight rates down. In other words, I think we have been given to viewing the situation too much from the standpoint of the theory that it is all right for me as a shipper to have my goods hauled the distance it may be necessary at a fair price, but if I take the point of view that I expect these goods to be hauled at a price lower than will pay for the service in expediting the transfer of these goods it seems to me it is certain to result in disappointment somewhere. Under the laws of economics the service must be paid for in a price which will be proportionate to the amount of service given. We have required the railroads to give us more and more luxurious accommodations so far as traveling is concerned, but we have wanted cheaper, and cheaper rates all the time. Personally I believe that the whole question of the settlement of the railroad problem in the long run must come through a sound understanding by the public and the making of a sound public opinion which will recognize sound and economical law. When that time comes our people will have no trouble in solving the problem.

The railroads employing as they do such a large number of men on the one hand, and having such large purchases of steel and iron and different commodities on the other, are important factors in our industrial and commercial life, and I venture the assertion that the situation in a business way will never be entirely satisfactory until this question has been settled and settled fairly and substantially; so we can go forward without all this talk of railroads and all this discussion which we have had in recent years.

We have many other problems which are important, that like the railroad question they are more or less difficult of solution. At the moment, as you all know, there is stagnation in our foreign business. This is due very largely to the condition that exists abroad throughout the many countries that have been at war. Almost every country in Europe is looking toward the United States at this time in the hope that she may secure credit and thereby secure the necessary help to enable her to begin solving the problems in reconstruction which are so important to them, and indirectly so important to us. I think almost every speaker that has spoken at this convention thus far has referred to the fact that until we can open up trade with Europe we cannot hope to reach that full measure of success which this country is destined to enjoy, and which we have enjoyed in the past. It is a very easy matter to say we must extend credit to Europe. But as a banker I have been spending perhaps half of my time lately looking



into the various applications for credit which have come from the other side, and I am frank to confess that the more I see of the situation the more I am at a loss how to handle the problems.

So far as the extension of credit of those countries is concerned, I think every banker in this country realizes the necessity of the extension of American trade to Europe. I think every banker would be very glad to co-operate in the extension of that credit, but the question is to know how it is to be done and done safely. It would be of no advantage to this country to extend credit to Europe, if in so doing we get ourselves in a worse condition. I am coming more and more to feel that this helpfulness to Europe, which they so much need and for which they are depending on us, must come in some large co-operative way in which the banks of the country will work as a whole. Some discussion has been had with reference to the organization of large corporations, representing possibly a hundred million dollars of capital, the purpose being to help these particular lines of industry finance their own sales to Europe. In other words, it has been suggested that possibly through the organization of a corporation of this kind by the cotton men of the south, they could assist their cotton men in financing their sales abroad, and so on down the line. This scheme or plan contemplated, originally at least, the organization of another large and more important corporation of perhaps a billion dollars capital in which banks of the whole country would be invited to join, and there was to be still further assistance on the part of the government. The purpose of the organization, with a billion dollars capital, was to help the smaller corporations, of about a hundred million dollars capital, to do financing of various lines of industry. This corporation in turn could fall back on the government for co-operation. This is not an original thought with me, and I might not be giving it to you as clearly as it may be expressed by others who have the work in hand. I am not going to try to elaborate upon that.

It is my purpose to talk about something else rather closer home. At the moment I only brought this out for thoughtful attention in the future and say frankly I only believe it is through united efforts and through co-operation of a number of banks that this financing can be done upon a scale at all helpful. Under the existing conditions, if you sell your goods abroad, you are paid in foreign money, and that money has depreciated. A man here in St. Louis told me yesterday he had a small transaction abroad. He had been paid in the money of the country in which goods had been sent, and when the man discounted the money, to turn it into American dollars, the discount was such that after he made the transfer, he lost six thousand dollars in the transaction in which he expected to make a fair profit. People from the country may not appreciate the importance of this, but it

is an important thing because if the American market could get back to its old time basis of production we may have those markets open, otherwise, we will have no place where we can send goods for sale.

One of the other problems concerning us at this time is the successful transportation of large products abroad, even though we may find some way of financing it. I know I am not striking a popular chord when I am talking to people of the agricultural section of the country on the topic of merchant marine. In the transportation of American products to Europe from 1914 until the time we got into the war, the farmer in the agricultural district would have been the greatest beneficiary. But this question of exchange is one that is very discouraging. The German mark has been down as low as a trifle over four cents; its normal value is twenty-four. The lira of Italy is sold under ten cents—I mean quoted under ten,—and so it is in practically all of the central European countries. The money circulating in these countries is paper currency and has depreciated in value to such an extent that it is impossible for an American to trade with them upon this basis. I know of one concern in our city that has twenty-four billion marks due it on business already sent over there, and they are skirmishing around now to see how they can get their marks turned into money, with very little prospect of a satisfactory solution of the problem.

Now, we have a great many problems. One of the things that comes closest home is the high cost of living. Surely it is the principal topic of talk. These problems are all economic. We have one other outstanding problem which to my mind is more important than any or even all of these economic problems. That is the tendency of the American people toward socialism and bolshevism. We have many pleasant memories of the glories of the days gone by, so far as achievements of this country are concerned, but we remember that these achievements were under different conditions than now exist.

We have a new order of things today, and though we are successful now and have hopes in the future, we must meet the problems of today and lay the foundation for whatever the future may have in store. This unrest which has traveled over the country is very disturbing to me. Take Omaha, a day or two ago where a crowd attempted to hang the Mayor of the city, simply because he was trying to perform his duty in keeping the mobs from taking a human life. When I see so many evidences of the quickness with which mob rule takes hold of the people of the country, I think it is more than a problem. It is a menace and so far as I am concerned it seems to me we must strike. First, in order that we may solve other problems permanent and satisfactorily; later on, and I am sure when this is solved, it will in part, at least, solve the other problems, which are purely economic. I believe that America is made for Americans,

(applause) and so far as I am concerned, I would make the man who comes here subordinate his views to American institutions and American ideals. (Applause). I have less objection to the men themselves than I have objection to public officials. The demonstrations we have seen take place all over the country are ominous. I am afraid too much of the trouble is in politics, and I do not mix pleasure with politics when I say that. (Applause). I think this great country of ours, for which our forefathers sacrificed so much should at least be treated with the same respect that the Methodist church requires when a convert goes in with a profession of faith. They take him on probation for six months. I believe when these men come from foreign countries they ought to know that they have freedom of speech and action so long as that does not run contrary to our American laws and our American purposes. (Applause). But the moment that freedom of speech does run contrary to our laws, that man ought to be taken in charge and sent back where he came from. (Applause). No man in America is more earnest in welcoming the honorable, well intending foreigner who comes to our shores for the purpose of making a home for himself and family than I, provided he intends to obey the laws. But if he comes here for the sole purpose of stimulating propaganda, that has as its basis the tearing down of our laws, the quicker we take him in and send him from the country, the quicker we will solve these problems. (Applause). The only way you can stop this is to hit it on the head when and where you see it. (Applause). And if it comes to the point that our public officials take good and proper action, then as good American citizens it ought to be your duty, the duty of each man to swear out an information and see they do take action necessary to stop this insidious undermining of the institutions for which we have stood and sacrificed so much. (Applause).

I want to make a distinction in anything I may say today between what I call laboring men and bolshevists. Labor is not "Red"; no one would go further than I to see that labor has the prosperity which this country enjoys. I am willing to say that in times past it may not have had its full share, but if I know to what extent I must give up to them what I have that they may get their share, I am willing to give it, but what they get must be gotten justly and fairly under the laws of this country and not by the command of their leaders. (Applause).

There never has been a time in the history of America when so much thought was given by prominent men to the subject of labor and to the thought of that which will be most conducive to benefit honest labor. We know in this country men of birth, men of prominence, men of means, have been studying this problem and at no time has there been such a leaning toward honest labor.

One morning recently we were electrified to hear that the police of Boston had joined the labor union. My friends, I have no objection to collective bargaining, I have no objection to labor unions, and I will go as far as I can in helping them to get their just deserts in all things in which they are concerned, but then, American citizens, we must not lose sight of this fact: When a man sets himself up to be a public servant, he is a servant of all the public, and when a member of the militia is a servant to all the public, and when the servants of the public whose duty it is to conserve the interest of every citizen, high and low, rich and poor, undertake through the associations of any kind whatsoever to secure things they cannot get in other ways, then you have no government left. (Applause). And the quicker the American people recognize this and make on this a public fight, we will reach a point where we can go forward with assurance.

Now, as to this question of bolshevism in this country, you hear it on every side, Governor Francis in a talk this morning, you will recall, stated he was called upon to transmit money from officials in Russia to America, the purpose of which was to publish propaganda in this country for bolshevism. That is what is going on all the time throughout this country. Daily money has been sent from Europe here to keep agitators who distribute propaganda. They are not citizens; they represent the scum of Europe, and they come here with the direct purpose of tearing down our laws and substituting might for right. You ask, How are we going to meet it? To my mind we have got to meet propaganda with propaganda. In Michigan recently there was a foreign organization which had for its purpose, as one man stated to me, the taking of all the state of Michigan in order that the people of Michigan, the citizens of the state, might learn just what this bolshevism stands for. Is there any intelligent man or woman in America who can look toward bloody Russia today and see the chaos in that country, who can see the murder and wreck, and for one minute want us to put in this country, the same scheme of government? I think not. Personally, I am strongly of the opinion that much of this agitation, or rather the result of this agitation comes from misrepresentation and misinterpretation, which is not contradicted. I believe that in most of the discussions which lead to strikes and arouse the spirit of SOCIALISM the results are due very largely to the irresponsible statements that are made by these agitators and not contradicted by anybody in particular. I heard a short time ago about a lumberman in the northwest who had a strike on. The man went out to try to get the men to tell why they went on a strike. They said they were not going to work to help this company make thirty or forty per cent. The superintendent of this plant was a rather intelligent fellow and he sent for some of these

people. He said, "Boys, come in. I want to show you our books. I want to show you are entirely wrong." He was able to prove the company was not only not making forty per cent. per annum, but for two years past they had only made five per cent. The result of it was the men are back.

Now, the point of this is to find people who can carry your side to them.

In our city, we have in the stock yards a hot bed of agitation all the time. A statement is made there day after day by these labor agitators—I don't say they are labor union men; I don't know whether they belong to any union; most of them are foreigners. They are not Americans, but the things they say as to what the packers and the other big people do there—well, God knows, if decent society believed one hundredth part of it, they wouldn't have them as members. But for every charge there is no repudiation of it, because nobody of their class wants to go down and talk with the men. I think we have got to find somewhere, through some plan or organization men in these particular classes who may go down among these men and discuss these things on an intelligent basis and counteract the falsehoods. I recognize that many of our people are quickly touched by criticism in times like this, when everything is high, but the greatest burden falls on the clerical people who work in offices, and they are not abandoning their posts and running away. They recognize that you, as heads of your various banks are doing all you can; they know these conditions are only temporary, and they have courage enough and patriotism enough and gratitude enough to stay with you and help overcome them, knowing very well that in the near future you will help them to solve that question and solve it satisfactorily.

Now, my friends, it seems to me that we approach the discussion of this high cost of living from the wrong attitude. You create laws in Washington and say that certain things are going to be so much and to a certain extent you can make it effective, but you might as well legislate that it should rain up instead of down, but it will come the same always. You legislate on prices, you legislate on the laws of economics. It is an economic problem which confronts us, so far as the high cost of living is concerned. I do not know a thing that is for the convenience or the necessity of human family that is obtainable except through effort. Gold, the most precious of all things in the world, is found in the bowels of the earth. If you get it, you have got to work hard for it and if you dig for it you have got to dig hard. The most fertile field will raise the rankest of weeds when it is not tilled, and if there is any way in the world by which it is possible for us to acquire wealth except through the expenditure of effort, I do not know what it is. The crux of this whole situation can be summed up in a very short statement—that is, we cannot get

away from the fundamental items of industry, honesty and thrift. We are trying now to see how much we can get and how little we can produce. In other words, our unwillingness to work for what we get is the trouble with us today. If there are many organizations in this world which believe that they can reduce the cost of living by striking to have their wages advanced, they are destined to be disappointed. In the long run, however powerful their organization may be, there is no mere legislation that can change the laws of political economy. There was an old saying that an hour of honest labor was the unit of value in this country. That may have been true at one time in our progress, but it has been lost sight of in recent years. But I am not sure that is the trouble today. We have lost sight of the old adage that we must give value for what we receive. We are trying to see how much we can get and how little we have to give. In the scheme of life it would seem to me that it is reasonable to expect that any one of us who is put upon this earth is properly expected to produce whatever his share of the necessities of the human family may be. This is the law, the application of that principle has been the law applied to the development of this country. Now, we seem to be getting a new line on the subject. We seem to think that we are trying to do as little work as possible and see how much we can get for it. You bankers don't stop to consider how many hours a day you put in. The time was when I was glad to work eighteen hours or twenty hours a day and glad to go down on Sunday and do work when it was necessary to my business success. That is what you all do today. You don't care how many hours a day it takes you. The question is rather, How are you to accomplish something? You are willing to give your service and as much of time as necessary, and that is the only reason you succeed. If you show me a bank that is operated by a set of officers and clerks who think they shall spend only so many hours a day at the bank and quit at a set time whether or not a day's work has been done, I will show you a bank that is at least not a leader in that community. If it can be shown that a man should work only eight hours to maintain good health and good physical condition, I say work eight hours. The eight hour talk is a good deal of foolishness. The talk is eight hours work for a day's pay and time and a half and double time afterwards. That is the trouble with this scheme and plan. It is a catch scheme with catch phrases in it. That is being proved now. We have the question of the gigantic struggle between the laborers in the steel industry and the steel corporation. I am not going to discuss that in detail, but I am going to ask you who have not already seen it, to procure a copy of last Sunday's New York Times and read on the first page of section nine of the paper an analysis of twelve questions put up to the Steel Corporation upon which this strike was called.

That is all I shall say in connection with that, because I think if you will read it, you will get the crux of the whole situation, and you will appreciate the importance of some of the suggestions I am making here today.

Now, my friends, I am not here to frighten you because I am not scared myself. I have the reputation of being an optimist and God knows I hope I won't lose it. We are having some trouble here, some of these things are menacing and some of them cause us to sit up and think, but I have such an abiding faith in the intelligence and stability of the average business man that I know in my heart that all of these problems will be met, and they will be solved in a manner that will reflect credit upon our people and glory upon our nation. The other day a man said to me, "My goodness gracious, is everything going into bolshevism? Are we going to have the same conditions here as in Russia and Europe?" I said, "Never." I tell you the best antidote to bolshevism and socialism is for every man who can to own his own home. I want to tell you that beginning with the farmers and on down the line to the cities, there is such a large percentage of people in this country who own their homes that socialism is not going to completely undermine America, nor is bolshevism going to be given away in America. I think it is our duty as bankers to co-operate, as far as we can consistently do so, with this home building movement. I was very much interested yesterday to hear Senator Owen say we could trust the people. Of course you can trust them, and I trust them too—when they have got collateral. So it is in this home building. Help them when you can where the collateral justifies it. I have got faith in people. I don't think you need be afraid to go to the public with any troubles at all, if you are on the side of right. If not right, get behind something. I lived in the country for years. I was time after time testing public opinion in these cases, and if I today had a problem too big, if I could get an expression of all the American people on it by tomorrow night, I would not be afraid to submit it to them, because I believe the intelligence of the American people is such, when one is right, they will support it.

My friends, if you were to ask me how conditions are today in business, I would say to you that, measuring from the standpoint of our own business, it is as well and good as it ever has been in the history of our institution. Never before, in any of my forty years' experience in banking, have I known of our business being more satisfactory than it is today. You talk to a man, and he will say, "Yes, I am all right but over yonder things are not so well," but when you get over there you find this fellow all right, and it is somebody else is not. Now, gentlemen, you know how it was in the banks after it was all over and the sky cleared, and there was no longer any

danger—when you got together in little bunches around the table and the usual excuses were the same—that we got along all right in our place, but our neighbor, the bank over in the other county, or one in the next county, had a great deal of trouble. So, it is throughout life. We get back to the old story told in the club house in Pittsburgh, which was: "I am an old man and have had many troubles, but the most of them never happen." I think we are in just that attitude today in America. We have some slight clouds in the sky, but I think we have taken note of the conditions—we have taken note of the tendencies and it is when we look across the water and we see the result of the attempt to end these conditions that we become fearful. Look at bleeding Europe! We have in America 35 per cent. of the gold supply of the world. We have in this country the best banking system in the world. We have just gone through a period which has helped this system. We have helped to finance our government to the extent of about twenty-five billions of dollars and that system stands fair, unshaken and unimpaired. We are indeed the financial centre of the world. We have profited so much by the war before we got into it, that our expenses in the war were only giving back a little of that which we had made in profits before.

Now, my friends, you hear a great deal about the solution of these problems, and I guess we all agree as to what they are—the remedy is thrift and production. There are two methods of saving, so-called. One is keeping as much of that which you make, as you possibly can, and the other is spending more to expedite production. I thought we had learned as a result of the war, two lessons, efficiency on one hand, and co-operation on the other, but as I see this conflict between capital and labor raging I wonder if the lessons of the war have been lost upon us so soon. I think not, because when I refresh my memory I realize that for nearly five years there was but one thought in the mind of everybody in the world, and that was to kill, to destroy, to tear down, to subdue, to acquire. Now the impression of all that has been left upon the people of the world. It is only a temporary feeling. These things will solve themselves if the practical men of this country undertake to do their part in the solving. The high cost of living cannot be cured over night so long as the rest of the world depends upon us for food supplies and so long as they are willing to come to our shores and pay one and a half or two times as much for these products as was the price before the war. Just that long you will have the high cost of living, no matter how you legislate! No matter what this department or that in Washington may do to control it. It is an economic problem and it has got to work itself out. If all the people in the world will get to work, the high cost of living will readjust itself, provided we can get an adjustment of the cost of things and the cost of labor in this country. I have



an abiding faith in the great majority of laboring men. They will do what is absolutely right and fair in these things and where a majority of people believe in justice, I am satisfied that things will soon be where we can get down to a normal basis and where these problems will to some extent be solved.

We have in this country an estimated wealth of two hundred and fifty billions of dollars. We have institutions that are second to no country in the world. We have man power. We have everything else that is necessary for our convenience and our progress and if we let ourselves become socialistic and complain of the conditions here, God knows we will be in the same condition as the people on the other side. I am glad I am in this country. I am glad I am an American, realizing as I do from day to day how much better we are off than the people of the other countries in the world.

I know we can find much to be thankful for. All these little flecks in the sky to which I have alluded are matters that will get our attention as time goes on. They will begin to clear away when public opinion begins to bear fruit so far as they are concerned, and these other problems that are menacing today and disturbing in their character will pass when the American business men and the American people generally who believe in justice and fairness and in equality work hand in hand together as they will do. I thank you. (Applause).

The next address, "Problems and Progress with Dollar Acceptances," was delivered by Jerome Thralls, Secretary and Treasurer, Discount Corporation of New York.

## PROBLEMS AND PROGRESS WITH DOLLAR ACCEPTANCES

JEROME THRALLS

I am glad of this opportunity to discuss with you a subject which I believe to be of vital interest to every clearing house and every clearing house bank in America. I regard the Clearing House Section as being one of the most efficient, powerful, and useful divisions of the greatest financial organization in America—the American Bankers Association.

You have in this section 234 regularly organized clearing houses, including in their membership an aggregate of about two thousand national banks, state banks, and trust companies. These respective organizations have done as much as any other factor in America in bringing about the improvements and changes that have made our banking system the premier system of the world. The thirty thousand American banks co-operating through the clearing houses and

Federal reserve banks have faced during the past four years the greatest internal and external demands that have ever been made upon any banking system; their ability to supply the ever increasing needs of our domestic commerce and industry, extend our foreign trade, and at the same time accommodate and aid our friends across the seas, was due in no small measure to the utilization of new privileges and facilities provided for in the Federal Reserve Act. Among the greatest of these facilities and privileges is that of the power conferred upon members of the Federal reserve system to grant acceptance credits. Another is the provision whereby bankers' and trade acceptances will serve the basis of currency issue.

Two hundred and fifty leading business men and bankers from throughout the nation recognizing the importance of these two features conferred in New York on January 21, 1919, for the purpose of forming an organization (the American Acceptance Council) whose purpose would be (1) to conduct a nation-wide campaign designed to inform business men and bankers throughout the country as to the merits of bankers' and trade acceptances; (2) to aid in the development of the open discount market, and (3) to assist in other matters that will improve the credit system and strengthen the financial position of America.

Both bankers' and trade acceptances are very simple instruments. I believe the problems and progress arising in connection with their use should be discussed under separate divisions. I will take up first the bankers' acceptances.

#### BANKERS' ACCEPTANCES

Under the provision of Section 13 of the Federal Reserve Act members of the Federal reserve system are authorized to accept drafts drawn upon them (having not more than six months to run, exclusive of days of grace) arising out of transactions involving (1) the exportation or importation of goods, (2) the domestic shipment of goods, (3) the storage in the United States of readily marketable staples. Under this provision any member bank may lend its credit up to the aggregate of 50 per cent. of its combined capital and surplus in addition to lending its money. It can, further, upon application to and with the approval of the Federal Reserve Board grant such credits or accept an additional aggregate of 50 per cent. of its capital and surplus in connection with export and import business. In no event, however, is any member bank permitted to accept in connection with domestic transactions an aggregate greater than 50 per cent. of its combined capital and surplus. There is a further provision under which, with the approval of the Federal Reserve Board a member bank may accept drafts drawn upon it by banks in foreign countries, the dependencies or possessions of the United States, for the

purpose of creating dollar exchange in the aggregate of 50 per cent. of its combined capital and surplus.

A banker's acceptance might rightfully be defined as being a draft or bill of exchange, the acceptor of which is a bank, trust company, firm, person, company or corporation, engaged in the business of granting acceptance credits. Under date of March 1, 1919, three hundred and sixty-two members of the Federal reserve system were availing of the acceptance privilege. Included in this number, there were ninety-nine national banks, and thirty-five state banks and trust companies that had arranged with the Federal Reserve Board for permission to accept up to 100 per cent. of their combined capital and surplus. Since March 1, 1919 the number of accepting banks and trust companies has increased to over 500.

Under the acceptance plan of financing these member banks were enabled to extend accommodations to worthy customers in the nature of secured acceptance credits, beyond the ten per cent. limit fixed by Section 5200 of the Federal Statute. Under this plan they had the ability to lend in this way over and above the amount heretofore provided, an aggregate of \$1,027,000,000. They were lending on March 1, a total of \$451,000,000, 75 per cent. of this total of \$451,000,000 worth of acceptances outstanding on March 1 was based on export and import business—64 per cent. of the bills being accepted by banks in New York and Boston. In addition to the acceptance power of the members of the Federal reserve system the laws of most of the states have been amended giving the state chartered institutions that are not members, the privilege of accepting. Possibly of the 30,000 American banks and trust companies, 25,000 now have the privilege of lending their credit through the acceptance method, as well as lending their money. In addition to this great power, strong private banking houses, such as J. P. Morgan & Company, Kuhn Loeb & Company and Brown Brothers & Company of New York have filed statements with the Federal Reserve Board and have made arrangements under which their acceptances are made eligible for purchase in the open market by the Federal reserve banks. A number of acceptance corporations and acceptance houses whose principal business is that of granting acceptance credits have been organized in New York and other centers throughout the country. The Foreign Credit Corporation of New York opened its doors only a few days ago. It has a paid up capital of \$5,000,000 and a surplus of \$1,000,000 and is devoting its attention to the business of accepting. I understand a similar corporation, the principal stockholders of which will include one hundred of the leading Texas banks is being organized at Dallas, Texas, with a proposed capital of \$2,000,000. Strong organizations of this character can safely grant acceptance credits in the aggregate of five or six times their combined capital and surplus. Some of our friends have

suggested the need for an amendment to the Federal Reserve Act providing for an increase of the limit of the aggregate that members can accept, to 200 per cent. of their combined capital and surplus. It would seem that since the records for March 1, 1919 show that the 362 member banks that were then accepting, were exercising but 44 per cent. of their acceptance power, the demand for an increase in the limit is hardly justified and that we should go along and develop the acceptance method using extreme care to the end that it be developed along safe and sound lines. When the time for extending the limit arrives, provision certainly should be made under which the exercise of the additional power will be subject to the supervision of the Federal Reserve Board or some other recognized Federal authority.

The creation and use of bankers' acceptances, like production or manufacture, can progress and increase only as the market for the product is developed. The creation and maintenance of a comprehensive open market for bankers' acceptances is therefore an essential feature of the acceptance method of financing. Acceptors, drawers, and other holders of acceptances must be assured of a ready market in which they can dispose of their holdings of bankers' acceptances at all times and at stable rates.

The Discount Corporation I have the honor to represent was organized for the purpose of devoting its resources and energies to the development and maintenance of such a market. A number of other strong discount houses and dealers in acceptances are also devoting their energies and resources to this purpose. These strong concerns stand ready to purchase at all times prime bankers' acceptances and high grade trade bills bearing first-class bank endorsements. The dealers of New York are now carrying in their portfolios an aggregate of approximately \$80,000,000 worth of such bills. These bills are purchased outright direct from the drawers, the acceptors or other holders and are then resold by the dealers to purchasers throughout the United States. The dealers operate on a margin of about 1/16 of 1 per cent. per annum gross profit. Their purchase rates for prime bankers' acceptances today are  $4\frac{5}{16}$  per cent. for ninety-day maturities,  $4\frac{1}{4}$  per cent. for sixty-day maturities, and  $4\frac{3}{16}$  per cent. for thirty-day maturities. That is on eligible bills payable in New York or some other Federal reserve center. It has been held by some authorities that dealers should not purchase acceptances direct from the acceptors and that all bills should be returned by the acceptors to the drawers to be marketed by them. In theory this is ideal, but in practice it is not. For illustration: We purchase bills from a certain St. Louis bank. We will suppose that this bank accepts in a certain day ten drafts of \$10,000 each for ten different customers. If the acceptances are to be marketed in New York, under the theoretical method, it would be necessary for each of these ten concerns to send

one or more telegrams to New York and for the New York dealers to respond. Whereas, should the accepting bank, under the practical plan, serve as the agent for the drawers in the marketing of the acceptances, one telegram to New York will answer the purpose in obtaining the rate and closing the deal for the sale of the acceptances. In this way nine or more telegrams to New York and nine or more replies are obviated. Further, the work in handling the transactions and the expenses connected therewith are reduced to a minimum.

The Federal reserve banks are permitted under the law to purchase from their members and others bankers' acceptances having not over ninety days to run and drawn in conformity with the law, rulings and regulations of the Federal Reserve Board and Federal reserve banks. They are also authorized to purchase this character of bills with six months' time to run if secured by live stock. Likewise, they are authorized to purchase trade acceptances having not more than ninety days to run. No better evidence of the progress in the use of the dollar acceptance may be had than the records of the Federal Reserve Board, which show that the Federal reserve banks purchased in their open market operations in the year 1916 bankers' acceptances aggregating \$386,000,000; in 1917—\$1,077,000,000; 1918—\$1,809,000,000 and during the first seven months of the year 1919, \$1,369,000,000. The acceptance dealers stand ready to quote rates on application by wire or by letter. They send to banks and other prospective purchasers, individuals, firms, corporations and companies that may have temporary funds for investment a daily offering sheet on which is given the denominations of the bills offered, their respective maturities, and the rates at which they are to be sold. With these lists before him any investor is enabled to select high-grade bills suitable as to maturities, denominations, etc. Bankers' acceptances, being salable in the open market or to the Federal reserve banks, serve as an excellent reserve. They can be converted into actual cash instantly. They are sound and safe because you have responsible thereon 1st, a high-grade bank (the acceptor), 2nd, a first-class merchant, exporter, importer, manufacturer or other business man (the drawer) and the bills are usually collateralized by readily marketable staples. The laws of all but two states have been amended, authorizing savings banks to invest a part of their resources in bankers' acceptances. I have in mind a particular savings bank that purchased a liberal supply of bankers' acceptances from us about six weeks ago. The acceptances were of ninety-day maturities and were sold to this bank on the basis of  $4\frac{1}{4}$  per cent. discount. Thirty days after the bank made its purchase, it was confronted with heavy withdrawals. It did not want to sacrifice its securities in the market and did not want at that time to deplete its balances with its depository banks. The officer of the bank in question called us by telephone wanting to know if we would repurchase these

acceptances. We did so, discounting them at  $4\frac{1}{4}$  per cent. Within twenty-four hours the proceeds of these acceptances were being used by the bank to pay its depositors. Consequently so far as concerns the bank, the acceptances served it just as well as would have a balance with a depository bank. Instead of earning from  $2\frac{1}{4}$  to  $2\frac{1}{2}$  per cent. the savings bank realized an earning of  $4\frac{1}{4}$  per cent.

The savings banks of America have resources of some seven billions of dollars. During the past four years their scope of usefulness and influence has been tremendously expanded. Their business is now affected by foreign exchange operations and other international business. Three per cent. of the savings banks' resources might to the advantage of the savings banks and to the advantage of the commerce and industry of this country be diverted to investment in high-grade bankers' acceptances. The deposits of savings banks are dependent upon our commercial and industrial progress. Savings banks should therefore turn their attention to the investment in this character of paper and pass on to the seventeen million new investors that have been created in this country during the past four years a part of their holdings in long-time securities.

A number of clearing houses have recently modified their rule so as to provide for the clearing of acceptances through the regular daily exchanges. This greatly facilitates the handling of the maturing bills. The Federal reserve banks have also made arrangements under which bankers' acceptances, payable in Federal reserve and branch Federal reserve cities, may be collected through the Federal reserve clearing and collection system and settled for through the Gold Settlement Fund. In this way an acceptance made payable in St. Louis can through the Gold Settlement Fund be converted into actual reserve on the day of its maturity by the New York holder. You will therefore readily see that through the use of bankers' acceptances funds may be attracted from the section of the country where they are most plentiful to the section where they are most needed; exchange may be equalized, interest rates may be leveled, and the shipment of actual cash to and from the different sections of the United States may be obviated. In the same way funds may be attracted from foreign countries to America or from America to foreign countries as conditions may warrant. Exchange and discount rates may be equalized and the shipment of gold may be reduced or obviated. Recently a large number of Belgian merchants determined to make heavy purchases of American raw materials. In order to finance these purchases a number of New York banking houses formed a syndicate. This syndicate, operating in conjunction with a like syndicate of Belgian bankers, granted acceptance credits against the sale of American commodities to Belgian purchasers to the extent of \$50,000,000. A similar credit of \$6,000,000 was arranged by New York banks with a consortium of

Czecho-Slovakian banks. \$40,000,000 worth of the Belgian acceptances were absorbed by the New York dealers in a three-day period.

The dealers' purchase rates for acceptances are an evidence of the stability of the bills and the market therefor. During the past ten months the rates have fluctuated but 1/16th of 1 per cent. That change applied to bills of maturities from eighty to ninety days only and was in effect only a few days, whereas during the same period the call loan rate on the New York Stock Exchange fluctuated from 4 per cent to 20 per cent. Savings bankers throughout the country have considered favorably the matter of investing a part of their resources in bankers' acceptances. Their failure to do so to a greater extent up to this time has been due to the fact that a large supply of short-term United States Treasury bills have been in the market constantly, yielding  $4\frac{1}{2}$  per cent. without considering the deposits arising out of the purchase and the tax exemption feature, which, if considered, makes the yield on this character of paper practically 5 per cent. It is believed that as the government needs for accommodations are reduced and the offerings of these short-time government bills are lessened the savings bankers and other investors in such bills will turn their attention to bankers' acceptances.

One of the great obstacles confronting the dealers in the development of the discount market has been that of getting ample funds with which to carry their portfolios. That is, at rates which would not entirely wipe out the dealers' profits. About one year ago, J. P. Morgan & Company announced that they would lend money on call against acceptance collateral at a preferential rate of  $4\frac{1}{2}$  per cent. Other large New York banking institutions have since taken like action and the rates have ranged from 4 per cent to  $4\frac{1}{2}$  per cent. The Federal reserve banks of New York and Boston, realizing that the development of the open market for acceptances was essential to the success of the system, have greatly aided by the purchase from the dealers of bills on what is termed the fifteen-day repurchase agreement plan. Under this plan the dealers sell to the Federal reserve banks, with an agreement to repurchase within fifteen days, prime bills at  $4\frac{1}{4}$  per cent. The development of the acceptance market has been retarded because of the practice of banks throughout the country to lend their temporary funds on the New York Stock Exchange at call. We all know that reserve funds should not be utilized in this way for the reason that such loans are not collectable and can be called only in event the burden can be shifted to other shoulders, while loans against prime bankers' acceptances or investments in such acceptances can be liquidated on any day for the reason that the acceptances serve as a basis of currency issue and can be rediscounted or sold to the Federal reserve banks. The Federal reserve banks, however, are not obliged to buy bankers' acceptances in the open

market operations. This privilege was originally intended to be a means through which interest rates might be regulated and controlled. It can be safely stated, however, that no condition will arise where prime bankers' acceptances will not be given preference when offered for discount by a member to a Federal reserve bank or when offered to a Federal reserve bank in its open market operations.

An effort is now being made to work out a plan for periodical settlements of stock exchange call loans. If such a plan is evolved, it will materially aid in the development of the acceptance market. Bankers' acceptances will be used more and more by the banks as a means of adjusting their cash position.

Another obstacle to the development of the open discount market has been the practice of swapping bills. This practice should be discontinued wherever it is in vogue because it is nothing more or less than the arranging for accommodation endorsements. It seems to me, taking everything into consideration, that the development of the bankers' acceptance method of granting credit has progressed satisfactorily. Our real duty now is to keep a careful watch on this method, and see that its further development will be along absolutely sound and safe lines. Our endeavor should be to give through the use of this method, all possible aid to domestic commerce and industry and to the development of our foreign trade. By this, I mean, not alone export but import business as well. There is a vital need for the bringing about of a proper relationship of our export to our import business. Otherwise the lack of stability in foreign exchange may preclude America's obtaining much of the business to which she is rightfully entitled. Bankers' acceptances will be graded as are other bills and commodities. The bills of the best known institutions with unquestioned standing drawn by concerns of the same character and collateralized by stable commodities will be put in a class known as prime. The acceptances of other institutions will be graded, as much off prime. In other words, even though the intrinsic value be as much in the one case as in the other, the acceptances of a high-grade small bank whose name is not known among investors will not find as ready a market as will the acceptances of a strong, large, well-known banking house. Where acceptances are to be accepted payable at a point other than the city wherein the acceptor is located, they should contain the following clause:

"The drawee may accept this bill payable at any bank, banker or trust company in the United States which such drawee may designate."

Any bank desiring to engage in the acceptance method of financing should thoroughly familiarize itself with the law and the rules and regulations of the Federal Reserve Board and the Federal reserve banks. It should confer with the officials of the Federal reserve bank of its district in order to make certain that the bills will be drawn



in eligible form and in a form satisfactory in every way to the Federal reserve bank. It should get in touch with its correspondent and get from that source such information as may be available. It should also get in touch with some good discount corporation or acceptance dealer in order to make certain that its bills will be drawn in a form that will insure proper consideration and will aid in their ready movement in the market.

#### TRADE ACCEPTANCES

A trade acceptance is a time draft drawn by the seller of goods upon the buyer thereof for the purchase price and accepted by the buyer with his promise to pay at a specified time and place; in other words, a trade acceptance covers a current transaction or current transactions in merchandise. Trade acceptances may be secured or not as agreed between the parties thereto. Usually, however, they are not secured. The Federal reserve banks are authorized under the law to purchase trade acceptances in their open market transactions; that is, when they are in strictly eligible form and have not to exceed ninety days to run.

Next to bankers' acceptances, trade acceptances are the highest grade of commercial paper in existence. The Federal reserve banks give a preferential rate of from  $\frac{1}{4}$  to  $\frac{1}{2}$  per cent. on this class of paper when rediscounting for member banks and it will serve as a basis of currency issue. It is therefore desirable that the use of the trade acceptance method be encouraged and substituted wherever adaptable for the old open book account method of merchandising.

The progress in the use of the trade acceptance is evidenced by the fact that within a period of one year the list of known users increased over 4,000. As a further evidence of the growth in the use of the trade acceptance, the Federal Reserve Board's report shows that the Federal reserve banks discounted this character of bills in the year 1916 to the extent of \$16,000,000; in 1917—\$30,000,000; 1918—\$61,000,000; and the Federal reserve banks purchased in their open market operations in 1916 an aggregate of five million dollars' worth of trade acceptances; in 1917 thirty-seven million dollars' worth; in 1918 one hundred eighty-seven million dollars' worth. The greatest success with the use of the trade acceptance has been in cases where it has been applied to entire lines as in the cases of the West Coast lumber dealers, the flour millers of the state of Washington, and the national silk dealers. In these respective lines the sales terms have been revamped so that the sales are either for cash or trade acceptances—sales on open account being entirely eliminated.

I have in mind one concern whose sales for the first six months of the year on the trade acceptance basis were \$1,600,000. Its terms were 2 per cent. ten days net 60. The average time of its outstanding

accounts heretofore had been 78 days. Every acceptance but one in this total volume of \$1,600,000 was paid at or before maturity. The acceptance that was not paid was involved in a failure. It was for \$647. In other words, this concern, through the use of trade acceptances, saved eighteen days' interest on \$1,600,000. It made a further great saving in the matter of labor and expense in handling its business. Other users of the trade acceptance praise it because it enables an equal amount of capital to do a greater amount of service. It enables its users (1) to reduce their bills payable account; (2) to buy a greater amount of short-term treasury bills; (3) to handle without difficulty the increasing volume of their business with the attending high prices; (4) to shorten the credit period; (5) reduce the number of claims and disputes, (6) to afford a definite check up on all transactions, and (7) to generally stabilize their business, producing at the same time a great volume of liquid paper eligible for rediscount at the Federal reserve banks and for service as a basis of currency issue.

A number of clearing houses have amended their rules so as to provide for the clearing of trade acceptances made payable at the offices of their respective members, through the regular daily exchange. In the development of the trade acceptance method of merchandise financing, we find that the banks are now confronted with four important problems: (1) the general demand by the users for a preferential rate when trade acceptances are offered for discount; (2) the matter of arranging a fair and equitable schedule of service and collection charges for handling trade acceptances; (3) the devising of the most efficient and economical method of handling trade acceptances within banks and business houses; (4) the problem of perfecting a comprehensive market for trade acceptances.

Regarding the first problem, it is unfortunate that business people generally have been led by certain enthusiasts to believe that a preferential rate of from  $\frac{1}{4}$  to  $\frac{1}{2}$  per cent. will be accorded by banks when discounting trade acceptances, because the banks are able to obtain preferential rates when rediscounting such bills with the Federal reserve banks. Many users have further been misled into the belief that trade acceptances can be discounted at the banks or sold in the open market in unlimited volume. It should be remembered that a lender's market has prevailed for many months and will likely continue for some months. Banks have found ready use for their funds at favorable rates. Until conditions change rates may fluctuate, but in no event will all trade acceptances find a ready market at preferential rates. Banks and other investors will take into consideration the name and character of the drawer and acceptor. The volume that will be discounted for any holder will depend upon that holder's standing and upon the standing of the other parties to the transaction.

Prime names, that is, the best and well known names, will be accorded a more liberal rate than will the unknown names. Some fear has been expressed along the line that through the use of trade acceptances our credit system will become inflated. If trade acceptances are properly used they can come into being only when an actual transaction in merchandise takes place. If the bankers and others whose business it is to grant credit and discount bills will apply the acid test to all names on the trade acceptances that are offered, danger of inflation will be obviated. It may be found that some concerns that are now getting heavy accommodations from banks will be restricted because the trade acceptance will reveal that they are doing a character of business that does not warrant their getting the accommodation that they have been heretofore accorded against their accounts receivable. In other cases, however, it will be found that certain concerns do business only with high-grade customers, people who can be depended upon to pay their obligations promptly. In such cases the accommodation extended through the discount of trade acceptances may be greater than has heretofore been accorded to such concerns on their single name notes.

The American Acceptance Council has approved and recommends for general use a form of trade acceptance, including the following:

"The obligation of the acceptor hereof arises out of the purchase of goods from the drawer; the drawee may accept this bill payable at any bank, banker or trust company in the United States which such drawee may designate."

It is believed that the trade acceptance form should be kept free from all entangling notations and conditions; otherwise its negotiability will be hampered.

Second problem: Arrangements should be made for the appointment of a special committee of bankers and business men to work out a satisfactory schedule of service, exchange and collection charges. Some acceptance users have the idea that trade acceptances can be handled on the same basis as checks and that they should be collected at par through the Federal reserve banks. They have also misunderstood the action of the New York clearing houses and other clearing houses with reference to the clearing of local trade acceptances, as meaning that trade acceptances payable at any point in the United States may be collected through New York or other principal clearing centers at par. The use of the trade acceptance will transfer to the bank much labor heretofore done in the business house. The business house will be relieved from sending letters, drafts, duns and other notices. By the concentration of this work in the banks, it can be done at less expense, but whatever the expense is, it certainly should be borne by the trade acceptance users. It is believed that on thorough explanation of this point to the users they would be satisfied to pay

a reasonable fee for the service and cost of collection of the acceptances. It is necessary to send trade acceptances to the place of payment before maturity; they must be ticklerized on receipt and carefully watched until maturity. From origin to the point of payment the work of handling trade acceptances is greater than that involved in the handling of ordinary checks. But since trade acceptances payable at banks may be charged to the accounts of the acceptors in most of the states, their use obviates the necessity for the issuance of checks to pay the bills the acceptances displace, thereby affording a big saving in labor and expense.

Third problem, that of devising the most efficient and economical method for handling trade acceptances in the banks and business houses, should be delegated for solution to a committee of bankers, trade acceptance users and accountants. The credit man of a certain concern told me recently that through the use of trade acceptances his house was enabled to dispense with the services of one clerk. The work heretofore done by this clerk is now being done in the bank.

Fourth problem, that of the development of the market for trade acceptances, must necessarily be a slow one. Many leading banks are turning their attention to trade acceptances as an investment in preference to commercial paper. These banks, however, are considering only the very best names and it is certain that trade acceptances taken by concerns outside of the large financial centers must find lodgment in the local banks. The expense of investigating the names on the bills of small denominations would alone preclude their finding their way to the open discount market.

The Clearing House Section could do no greater service than to turn its energies to the solution of these four problems. Great progress is being made with the trade acceptance method of merchandizing; its further attention and development depend largely upon the attitude of the bankers. If the bankers in the 234 clearing house centers are thoroughly convinced that this method is sound and efficient, and means better and safer business, and will so advise the merchants, manufacturers and other business people in their respective communities, the future progress of the trade acceptance method will be made certain.

There never was a time in the history of this nation when there was greater need for clear thinking, for the exercise of sound judgment and for the careful direction of our commercial, industrial and financial affairs than at present. Our progress during the past four years is without parallel. Our business methods and practices have been revolutionized. We have witnessed a nation of one hundred and ten million people working as an individual for a single purpose.

On turning from the accomplishment of this purpose to peacetime pursuits, we find our entire population more prosperous than ever before, but with this prosperity there has come extravagance, a demand

for ease and comforts, a desire for shorter hours, less work and more pay, as well as other vexatious problems which must be solved, and solved rightly, if we are to hold the place we have achieved as a leading commercial, industrial and financial power of the world.

We have rolled up a staggering credit balance in connection with our foreign trade. (From July 1, 1915 to July 1, 1919, the excess of our exports over our imports totaled \$13,350,322,816.) We have loaned to foreign governments the tremendous total of \$9,600,000,000. We have great surpluses of foodstuffs and raw materials urgently needed by other nations throughout the world. The unsettled foreign exchange situation makes the prices of these commodities to the principal foreign countries almost prohibitive.

Some of our chief competitors, driven by adversity, are concentrating and uniting their forces. They will soon be back to a normal basis and will be offering their surplus products in competition with ours. Close co-operation and low production costs will make their competition keen.

The clearing houses of the United States afford the best instrumentality through which to get the concrete judgment of the best banking minds in America. The leaders in the clearing houses throughout the country should turn their attention to the study of these important problems and the devising of ways and means through which they may be solved. Some plan must be devised under which our great foreign trade credit balance may be liquidated, proper relations of exports to imports may be established and the necessary long-time credits with which to further extend our foreign trade may be arranged. It would seem, even though great progress is now being made, that we will need take hold of the situation with a stronger and more determined hand. The spirit of close co-operation, efficient and conscientious effort must be crystallized in the minds of the people throughout this country.

No class of people in America can do more toward bringing about these results than can the bankers. The liquidation of our foreign trade credit balance and the extension of our foreign trade make it desirable and necessary for the people of America to invest in foreign securities. We have created in recent years more than 17,000,000 new individual investors. When our government financing is out of the way these investors will be in a position to absorb billions of dollars' worth of foreign securities annually. A gigantic co-operative corporation should be formed with the strength, power and influence that will be necessary in order to induce these new investors to invest in foreign securities and in order to protect such investments.

If the Edge Bill, now pending in Congress, should become a law, a corporation of this kind, with a capital of from \$50,000,000 to \$100,000,000 and with the American banks as its stockholders, might readily

be formed should the banks represented in this Section of the American Bankers Association get behind it with the spirit and enthusiasm that characterize them. With the banks throughout the country acting as the agents of such a corporation and co-operating through it, our international, commercial and financial problems would be easy of solution and needed facilities might be provided to the banks throughout the nation and the whole people would be greatly benefited.

The Nominating Committee brought in the following nominations:

**President:** Raymond F. McNally, vice-president and cashier National Bank of Commerce, St. Louis, Mo.

**Vice-President:** A. A. Crane, vice-president First and Security National Bank, Minneapolis, Minn.

**Chairman Executive Committee:** John R. Washburn, vice-president Continental and Commercial National Bank, Chicago, Ill.

**Executive Committee (term expiring 1922):** A. D. Graham, president Citizens National Bank, Baltimore, Md.; Frank B. Yetter, cashier Iowa National Bank, Davenport, Iowa.

The above report was unanimously adopted and the gentlemen named declared elected.

**PRESIDENT McADAMS:** We will next call upon Mr. Houston for his paper on "Uniformity of Clearing House Rules and Practices."

## UNIFORMITY OF CLEARING HOUSE RULES AND PRACTICES

F. K. HOUSTON

In discussing any uniformity of rules or action for clearing houses, it is well to pass over any consideration of constitution and by-laws, as that would embrace a mass of detail that would be uninteresting and unimportant. Then, too, they are all more or less alike and necessarily have considerable uniformity. Suffice it to say that they, in the main, provide for a President, Vice-President and Manager, fines, assessments and means of meeting expenses.

Of the forty-odd clearing houses taken into consideration, 50 per cent. of them require three-fourths majority vote for the election of new members and most of the remainder simply a majority vote. In many cases it is necessary for any bank becoming a member of a

clearing house association to have a certain amount of paid-up capital. In other cases it is required that they be in business with capital stock fully paid for a period of at least six months prior to application for membership, and in some instances, as in Albany, N. Y., one year is required.

In most all clearing house rules we found that it was necessary that any applicant for membership at least submit to examination of the clearing house examiner, if there was any, or submit a detailed statement for consideration. In the majority of the cities, it was found that a member could withdraw from the clearing house by giving from one to thirty days' notice, and in a few cases it was found that a two-thirds majority vote of all members was required to permit any member to withdraw.

In practically all cases, fixed hours for clearing items among each member are prescribed by the clearing house rules.

Instead of going further into the provision the constitution and by-laws of clearing houses in a paper of this kind in the short time allotted, would suggest that it might be well for the benefit of the members of this Section that the Secretary be asked as soon as possible during the coming year to codify the laws of the different clearing houses for use of the members.

I have selected a few of the chief functions of the clearing house and shall try to show how they are being performed by some of the best operated clearing houses of the country today.

The chief function of the clearing house is, as its name implies, to clear items for the members, including those on each other, those on associate members, and those on non-members, whether in the same city or not. When on banks not in the same city, it is often called a country check clearing house.

For examination of the rules and practices of a large number of clearing houses of the country, I have evolved the following composite plan, which appears to me to embrace the best feature of most of them:

After the exchange of checks at the clearing house in the usual manner and the entry on the manager's balance sheet showing the net debit and credit balances, the manager draws what is known as a manager's certificate of indebtedness on the debtor members in favor of the creditor members. These certificates are called for within one hour by the creditor members and deposited with the Federal reserve bank or branch, if any (otherwise cashed, settled by cashier's check, or other exchange). This institution makes the proper credit and debit entries on its books, completing to the satisfaction of the creditors at the clearing house the settlement of balances of the day.

The settlement of balances resulting from the exchange of items at the return session is effected by giving the manager of the clearing

house a desk and number. To the institution having a credit balance a draft is issued on No.— Manager for the amount of the credit balance. The manager draws on each of the debtor institutions for the amount of their debit balance. All of these drafts are cleared in the morning exchanges of the following business day, completing settlement of return session balance of previous day.

The expenses of the clearing house can be met, first, by payment of annual dues; second, by assessments against members, pro-rated according to the amount which each member has sent to the clearing house during three months' period preceding the assessment. The expenses of the examiner's department and country check collection department are met in other ways, and will be explained by these departments.

Of course, there are different ways of doing these same things, as, for instance, in Los Angeles settlements with members are made through the Federal Reserve Bank in San Francisco by telegraph. At or before 11:45 A. M. the manager of the clearing house advises the Federal Reserve Bank in San Francisco by telegram, signed by the president or vice-president of the clearing house, the result of the day's clearings giving balances from and to both debtor and creditor banks in detail, the total debit balances to equal the total credit balances for the day. The Federal Reserve Bank thereupon charges the debtor bank with the amount due from each of them respectively and credits to each creditor bank the amount due it.

In most larger cities clearings are made only twice each week day and once on Saturday, but in New York three exchanges are made each day, except Saturday, when afternoon exchange for return items is held.

In Baltimore the Federal reserve bank branch is made the agent of the different members of the clearing house to effect the clearings, and does so by charging and crediting their reserve accounts. In some places as in New Orleans, the hour of clearing is 8 o'clock in the morning, and banks there do not close their individual ledgers at 3 o'clock P. M. but at 8:30 A. M. the following morning.

In San Francisco banks having credit balances for the day settle same by checks drawn on the Federal Reserve Bank of San Francisco, settling agent, against accounts maintained at said bank. Credit balances due members for the day are placed to the credit of the accounts maintained by members with the Federal reserve bank.

The second most important function performed by a clearing house, in the writer's opinion, is that of examination and keeping check upon the financial condition, standing and progress of its members. This may be done in different ways, as in many cases—for instance St. Louis, by having a regular clearing house examiner with a corps of assistants who examine the member and associate member banks as often as possible, and at least once a year. We found that the



cities that have a clearing house examining department are very enthusiastic over its operation. They claim that it gives a stability and confidence to the banking interests of the city that is not afforded by any other means of examination. For instance, such examinations are more thorough and more scientific. The examiners are removed from political influence that so often enters into state banking departments and bears upon state examiners. Then the fact that they are more familiar with local conditions and they examine both state and national banks gives them an insight into and knowledge of local credits that is most valuable. They are able to warn the members against designing and constant borrowers who may try to play one institution against another.

Of the many ways of meeting the expenses of such department, we found the one most in vogue, and which apparently had proven most satisfactory, to be that of prorating the expenses among the members in proportion to the time spent in examining each. Often a small institution might require more of the examiner's time than a larger one. Some clearing houses require that a report of each examination be filed with the clearing house manager, or a managing committee, but in most cases no such report is required unless, in the opinion of the examiner, it is considered satisfactory.

Another method is to have the state bank examiners or department furnish detailed report to the clearing house of all examinations of its members, and the clearing house in turn furnish a summary of this information to its members. As in Louisville, for instance, each member of the association is required to furnish the manager on the first day of each month a statement of its condition, which shall be tabulated by the manager and kept by him in a book subject to the inspection of the principal officers of any member. The member failing to comply with this requirement within five days is subject to a fine of \$50.00.

In New Orleans members of the clearing house are required to furnish the manager each Friday morning with a report of its average daily condition during the preceding week. A condensed copy of this statement is furnished to each member and a comparison made against the same time a year previous.

Another ruling of interest that the New Orleans clearing house has is to the effect that no member of the association, nor any bank or trust company clearing through a member of the association, shall accept for deposit or collection from local customers checks drawn against local banks or trust companies which are not members of the association, and which do not clear through members of the association, nor shall any member of the association receive from or send through the clearing house any checks deposited by, or belonging to any bank located in that city not a member of the association.

In Louisville a member of the association may send through the clearing house exchanges of a non-member by paying into the association for the privilege a sum equal to the fee required to be paid by a new member upon entering the association, and the liability of the member so clearing shall be the same for this business as for his own. This liability shall continue until the day next following the receipt of notice of discontinuance of clearing for the said other institution.

In the matter of fines and assessments, there is considerable uniformity existing. Some associations take this matter up more in detail, as in one case a fine of 50 cents is imposed for every unstamped check delivered in the clearings. Most all of the associations have rules covering fines for delay, tardiness and other errors. In some cases, as at Columbus, Ohio, prizes are given to the representatives who make no errors, or those who have the least number of errors.

The very important matter of interest rates is one that we find controlled by many associations, and one that we believe should be regulated by all. The plan adopted by the New York banks of regulating interest rates according to Federal reserve discount rate we find is being followed by many other clearing house associations, and we believe is logical and practical and should uniformly be adopted.

In most cases provision is made for the rate of interest to be paid upon savings accounts, certificates of deposit, whether time or demand, public funds, bank deposits and individual checking accounts. This rate we find to vary according to section and locality, and offenders to be subjected to varying fines.

In order that the rules prescribed covering interest rates may not be obviated, the Seattle Clearing House Association has a provision that no bank or trust company shall permit any of its officers to become associated with, or permit their names to be used in advertising by any savings or loan association, or any other institution soliciting from the public funds as savings accounts when such advertising conveys the impression that such institution pays a stated rate of interest on savings accounts, when in fact such advertising and statements are misleading and the funds placed in such institutions are not guaranteed interest, but apply to a subscription of stock which is not delivered to the depositor.

Most of the rules of the clearing houses consulted permit interest to be paid on balances created by uncollected funds, but some do not, and this, we believe, is a very important matter for the consideration of this Section. Money used or withdrawn before checks deposited are collected is simply money borrowed for that length of time. In the same way, balances created by foreign checks deposited are not balances until said checks are paid. Any interest allowed thereon is interest paid on a balance that does not really exist. It is especially

easy for banks to fool themselves and lose money in overlooking this feature. This is especially true on bank balances and other accounts on which interest is paid.

We find that several associations have in the past year or so adopted rules or regulations covering a service charge on accounts. In such cases, checking accounts averaging for the month less than \$100, \$500 or \$1,000 as the case may be, on which any checks have been paid, are subject to a service charge of from 25 cents to \$1.00 or \$5.00 per month, and the same is charged to the account. From personal investigation, I know that this rule has worked very satisfactorily and profitably in most of the cities where it has been tried out. If you have never made the investigation, I believe you will be surprised to find the large number of active checking accounts on the books of your bank that average very small and on which, in themselves, your bank constantly loses money.

While it may be true in some cases one account may average small and the same depositor has a larger one, yet this fact does not diminish the loss on the one, and is more reason why said depositor should make both accounts profitable. Customers realize this, and I believe in most cases agree that it is a fair and just stand for the bank to take. It is a matter, however, that can only be handled by clearing house action, and the same minimum fixed for all member banks. In these days of high cost of stationery, printing and such things, it is quite a consideration. If some uniform action on this rule were taken by more clearing houses of the country it would certainly add greatly to the profits of the banks.

In practically all of the regulations examined, it was found that members could apply to the association for assistance. Generally such application was required to be made in writing, either to the manager or a committee appointed for that purpose. When such application is made, it is generally provided that an examination of the applicant be made and a report submitted to the association. If it is deemed advisable to extend assistance, the clearing house, or committee appointed for that purpose, generally accepts from the member making such application satisfactory security or receivables to protect the other members for the proportionate amount of assistance they may advance. All such advances are of course repaid with interest as soon as possible thereafter.

The matter of donations, subscriptions and advertising is one that can be very well handled by clearing house associations to the great profit and benefit of many of its members. In the mind of many of the directors and stockholders, there is a grave doubt whether or not the bank has the right to give away the money of its stockholders in donations and subscriptions. Most of this is done, however, in the way of advertisement or necessary expense, and we believe it is generally

passed by the examiners. Of course, a broad view to take of such action is that it serves to build up the good will of the bank and therefore increases its business. Many of the associations have the provision that no individual donations or subscriptions can be made in excess of a certain amount except by associated action of the banks. Such a rule often relieves individual members of embarrassment.

In advertising, we find that many of the associations list the different periodicals in which its members may advertise, therefore greatly reducing the advertising expenses and no doubt saving its members considerable money. Both of these plans we believe have merit.

In some of the state legislatures, Missouri for instance, there have been introduced in recent years bills purporting to incorporate clearing house associations and put them under the jurisdiction of the State Banking Department, subject to its regulations, examinations, etc. Such action, we believe, would be very harmful and detrimental to the best interest of the clearing houses and would prevent them from rendering their members services in many ways that they now do. It would, to an extent, put them into politics and prevent the co-operation they now enjoy.

Much has been said and done recently in regard to exchange charges made to city customers on outside checks. We believe that such charges would be more clearly understood and more easily explained if they were characterized "interest charges," determined by the time in transit, and not collection charges. This is the theory of the Federal reserve collection system and has enabled various clearing houses to adjust their charges on a basis much more satisfactory to their customers.

When the time comes that the Federal reserve banks collect all items, we have no doubt but what it will be on this basis. While we may all look forward to the time when the Federal reserve collection system will be established on a broader basis and handle all items, yet I do not believe that this can ever be done on a par basis to the depositor, because interest on items in transit is a necessity, and should be considered in practically the same light as a loan to the customer.

Some clearing houses have followed the above plan to advantage in prescribing charges on bill of lading items drawn with exchange that are outstanding beyond the normal time for transit. This they do by making, in addition to the exchange charge, an interest charge for the extra days.

More associations are constantly coming to prohibit the "Payable if desired" items, and we believe that such a practice will soon be discontinued entirely. (Comptroller's rulings and dangers).

We could not close this paper without laying some stress on the advantages and savings under present conditions of country check

clearing houses. By the establishment of such departments in the different associations, we see the possibilities of banks in any section collecting on any point, in the most direct and least expensive manner. If banks in the east could feel certain of prompt returns by sending their items to a country clearing house on the Pacific Coast, from which they would be sent direct to the place of payment with the least possible time consumed, it would be an incentive to the eastern banks to make their collections in this manner. If the whole country was linked by country clearing houses, there could be built up a system of collecting and clearing items similar to that which is now practiced by the Federal reserve banks. Under the present method, checks are collected in every way, and before reaching place of payment may be farmed out to a half dozen different banks and routed all over the country.

Besides the benefit of more direct collection, there is a great savings in this method of wholesale collection through the clearing houses, because of lower rates of exchange that can be secured and reduces the administration expenses in postage, stationery, tracing, correspondence and clerk hire. Such a volume of business can also be used to attract accounts from sections where the banks may scatter their balances or do business elsewhere. Banks receiving this volume of business are pleased with the fact that only one draft is needed for remittance while several were required before. Of course, this method of collecting out-of-town items is practical and profitable only in territories where there is a large proportion of banks that are not members of the Federal reserve system.

The influence that clearing houses have for harmonizing competition and erasing evils that have grown up in the banking business cannot be over-estimated. Their power of collective bargaining and co-operation instead of individual action has been of the greatest benefit to their members, their cities and country. This was demonstrated by their actions in 1907 and was shown on many occasions during the war. (Applause).

**PRESIDENT MCADAMS:** I am going to ask Mr. Livingstone, who is a former President of the Association, and now the present president of the Detroit Clearing House Association, to say a few words to us.

**MR. WILLIAM LIVINGSTONE:** Gentlemen, I feel somewhat ashamed to be here this afternoon, as I came here to make an apology. It has been my custom for a number of years back to get all the ex-Presidents of the American Bankers Association together in a bunch, with the feeling, of course, that it might last as the twilight years are coming on me. I wanted exceedingly to

have Mr. George Reynolds present at that time, and I practically promised if he was late in keeping the engagement which he made for the Clearing House Section here, that I would come here and apologize for him if he were late. I came here with the sole expectation of apologizing, but gentlemen, I have no apology to make. If I had written Mr. Reynolds' subject, but of course he requires no assistance from anyone on earth, I could not have expressed the sentiments of our section of the country, at least, better than was expressed by him today. (Applause.) It affords me great pleasure indeed to be here to testify to that. I am not on the program; I don't want to take up your time. It so happens, perhaps, that in addition to the banking business, all my life I have been interested more or less in a steamboat proposition, on the Great Lakes. It may be somewhat of a surprise to you when I say that the year before last we moved 100 million tons on the Great Lakes, and our average time for navigation is about 245 days; as a matter of fact a trifle less than that, as against 365 days on the seaboard, and yet the year before last we moved more tonnage on the Great Lakes than entered and cleared at the ports of New York, London, Liverpool and Manchester combined. Not in value, however, because a large portion of that was iron ore tonnage.

**PRESIDENT MCADAMS:** We will now have a report from the Committee on Resolutions.

The following resolutions were thereupon offered by the Committee on Resolutions:

*"Resolved, First:* That a vote of thanks be given to Mr. Jerome Thralls, former Secretary, for his very efficient activities in connection with the work of this section, until the time of his resignation.

*"2nd:* A vote of thanks to the members of this Section and its officers, for their activities, and to strongly urge even greater energy upon them concerning very important problems to be considered during the coming year.

*"3rd:* The adoption in general use of the credit statement form, already prepared by this Section.

"4th: For further development looking toward the more general use of trade and bank acceptances.

"5th: Placing in operation further propaganda concerning the adoption by the different clearing houses of the forms of the clearing house commercial system.

"6th: An expression of thanks to the various speakers, the St. Louis speakers, and all the people of St. Louis for the delightful hospitality extended during this convention."

The meeting then adjourned.

**OFFICERS**  
**NATIONAL BANK SECTION**  
**1919-1920**

**Organized September 9, 1915.**

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**PRESIDENT:**  
**WALTER W. HEAD,**  
President Omaha National Bank, Omaha, Nebraska.

**VICE-PRESIDENT:**  
**HENRY H. McKEE**  
President National Capital Bank, Washington, D. C.

**CHAIRMAN EXECUTIVE COMMITTEE**  
**WALDO NEWCOMER,**  
President National Exchange Bank, Baltimore, Md.

**SECRETARY:**  
**FRED. W. HYDE,**  
5 Nassau Street, New York.  
406-7 Mills Building, Washington, D. C.



## EXECUTIVE COMMITTEE

(TERM EXPIRING 1920)

J. A. PONDBOM, Vice-President South Texas Commercial National Bank,  
Houston, Texas, F. R. Dist. No. 11.

ALFRED L. AIKEN, President National Shawmut Bank, Boston, Mass.  
F. R. Dist. No. 1.

JOHN G. LONSDALE, President National Bank of Commerce, St. Louis,  
Mo. F. R. Dist. No. 8.

THEODORE WOLD, Vice-President Northwestern National Bank, Min-  
neapolis, Minn. F. R. Dist. No. 9.

(TERM EXPIRING 1921)

N. P. GATLIN, Vice-President Chatham and Phenix National Bank,  
New York City. F. R. Dist. No. 2.

A. F. DAWSON, President First National Bank, Davenport, Iowa.  
F. R. Dist. No. 7.

WALDO NEWCOMER, President National Exchange Bank, Baltimore,  
Md. F. R. Dist. No. 5.

GEORGE A. KENNEDY, Vice-President First National Bank, San Fran-  
cisco, Cal. F. R. Dist. No. 12.

(TERM EXPIRING 1922)

JOSEPH WAYNE, JR. President Girard National Bank, Philadelphia, Pa.  
F. R. Dist. No. 3.

R. D. SNEATH, President Commercial National Bank, Tiffin, Ohio.  
F. R. Dist. No. 4.

THOMAS R. PRESTON, President Hamilton National Bank, Chattanooga,  
Tenn. F. R. Dist. No. 6.

JAMES RINGOLD, Vice-President United States National Bank, Denver,  
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THE PRESIDENT—Walter W. Head, Vice-President Omaha National  
Bank, Omaha, Nebr.

THE VICE-PRESIDENT—Henry H. McKee, President National Capital  
Bank, Washington, D. C.

THE PRESIDENT IN 1918-19—Oliver J. Sands, President American Na-  
tional Bank, Richmond, Va.

### COMMITTEE ON SECRET ASSIGNMENT OF ACCOUNTS

(To be appointed)

### COMMITTEE ON FEDERAL LEGISLATION

WALDO NEWCOMER, Chairman, c/o National Exchange Bank, Baltimore,  
Md.

GEORGE A. KENNEDY, Vice-President First National Bank, San Francis-  
co, Cal.

J. A. PONDBOM, Vice-President South Texas Commercial National Bank,  
Houston Texas.

### COMMITTEE ON STATE LEGISLATION

THOMAS R. PRESTON, Chairman, c/o Hamilton National Bank, Chattanooga, Tenn.

A. F. DAWSON, President First National Bank, Davenport, Iowa.

R. D. SNEATE, President Commercial National Bank, Tiffin, Ohio.

### COMMITTEE ON FORMS

N. P. GATLING, Chairman, c/o Chatham and Phenix National Bank, New York City.

HARRY J. HAAS, Vice-President First National Bank, Philadelphia, Pa.

JOSEPH EVANS, JR., Cashier Riggs National Bank, Washington, D. C.

### COMMITTEE ON ACCEPTANCES

OLIVER J. SANDS, Chairman c/o American National Bank, Richmond, Va.

ALFRED L. AIKEN, President National Shawmut Bank, Boston, Mass.

JAMES RINGOLD, Vice-President United States National Bank, Denver, Colo.

### COMMITTEE ON STATE TAXATION OF NATIONAL BANKS

J. ELWOOD COX, Chairman, President Commercial National Bank, High Point, N. C.

WALDO NEWCOMER, President National Exchange Bank, Baltimore, Md.

THOMAS R. PRESTON, President Hamilton National Bank, Chattanooga, Tenn.

### COMMITTEE ON TRUST DEPARTMENTS OF NATIONAL BANKS

JOHN G. LONSDALE, Chairman, c/o National Bank of Commerce, St. Louis, Mo.

THEODORE WOLD, Vice-President, Northwestern National Bank, Minneapolis, Minn.

ALFRED L. AIKEN, President National Shawmut Bank, Boston, Mass.

### COMMITTEE ON MEMBERSHIP

JAMES RINGOLD, Chairman, c/o United States National Bank, Denver, Colo.

JOHN G. LONSDALE, President National Bank of Commerce, St. Louis, Mo.

J. A. PONDBOM, Vice-President South Texas Commercial National Bank, Houston, Texas.

W. D. VINCENT, Vice-President Old National Bank, Spokane, Wash.

PERRY JOHNSTON, Vice-President Chemical National Bank, New York City.

**PROCEEDINGS OF THE FOURTH ANNUAL  
MEETING**

**NATIONAL BANK SECTION**

**AMERICAN BANKERS ASSOCIATION**

**St. Louis, Mo.**

**September 30, October 1, 1919**

The first session of the fourth annual meeting of the National Bank Section was held in the ballroom of the Planters Hotel, St. Louis, Mo., on Tuesday, September 30, 1919, at 2:30 o'clock P. M. All joined in singing "The Star Spangled Banner," after which an invocation was offered by the Rev. Z. B. T. Phillips, rector of St. Peter's Episcopal Church at St. Louis.

**PRESIDENT OLIVER J. SANDS:** The National Bank Section of the American Bankers Association will please come to order. Out of consideration for your time and convenience, the reports of the President, the Executive Committee and the Secretary have been printed and will be found in the pamphlet that has been distributed to you, and we will be very glad to have you take them home with you and read them there; and if any question arises concerning any of the matters reported on, we will be glad to discuss any matter with you before the close of the convention. (These reports will be found at the end of the printed proceedings of this section.)

The first order of business will be the appointment of two committees, one on resolutions and one on nominations. These committees are to be appointed now, and are to report at tomorrow's session. I will appoint on the Committee on Resolutions: Mr. George Woodruff, Joliet, Ill.; Mr. R. F. McNally, St. Louis, Mo.; Mr. J. R. Dominick, Kansas City, Mo.; on the Committee on Nominations: Mr. Delmer Runkle, Hoosick

Falls, N. Y.; Mr. S. E. Trimble, Springfield, Mo.; Mr. J. C. Houston, Denver, Colo.

My great pleasure now is to introduce to you the first speaker, Mr. Waldo Newcomer, president of the National Exchange Bank of Baltimore. Mr. Newcomer is well known to every member of this Association. True to the conservative nature of this Association, I want to say that we didn't take any chances with our speakers, and so we got men that we knew, and knew would fill their part of the program acceptably to us all. Mr. Newcomer is a prominent banker and a prominent business man, and he has been very active in the interests of this Association, and the many sacrifices he has made for the American Bankers Association could only have been because of his desire to be of service to the banking business of this country. He has served well, and is most qualified to address us on "The Relations Between the Federal Reserve and Member Banks." I take great pleasure in introducing Mr. Newcomer. (Applause.)

## IMPROVING THE RELATIONS BETWEEN FEDERAL RESERVE AND MEMBER BANKS

### WALDO NEWCOMER

I appreciate highly the honor of being invited to present for your consideration a subject so important and so interesting to all of us as that covered by this paper. A keen sense of responsibility rests upon me and I know that some things that I shall say will be sharply criticized, but I want to speak with the utmost frankness and freedom and therefore I ask you to accept my assurance that not one word in this paper is intended as a criticism of, or a reflection upon, any reserve bank, member or non-member bank, or any individual.

This is not intended to be in any sense a philosophical discussion on the theoretical relations between the Federal reserve banks and the member banks, nor yet a didactic sermon on the duties of either, but it is an earnest, however unsatisfactory, attempt to make a few practical suggestions, which may lead to closer co-operation and more efficient results. I do not mean to intimate that there is anything unsatisfactory in the present workings of the system, but any machinery of human origin, however near perfection, has possibilities of improvement, and in this case we are all interested in having it

approach as closely as possible to the unattainable limit of absolute perfection, and wish to do all in our power to assist.

Nor does this paper represent any personal hobby or theory of the writer, elaborated in the secrecy of his private study, but it has been prepared after correspondence with various officers of reserve banks and their branches, and with a number of officers of member banks of all sizes, scattered over the whole United States, and to all these the writer desires to express his appreciation of their cordial responses and valuable suggestions.

The Federal reserve system, in its plan for consolidating and mobilizing reserves, has frequently been compared to a reservoir of water as a protection against fire. For my present purpose, I prefer to think of it as a reservoir of drinking water, supplied by numerous streams covering a wide-spread and diversified area. You will see at once that two things are necessary that it may be thoroughly satisfactory in the accomplishment of the work expected of it.

*First:* The feeding streams must be developed and directed so as to supply the maximum amount of the purest water obtainable to the reservoir.

*Second:* All leaks and waste places in the reservoir itself must be eliminated and the freest possible streams distributed to the population, new outlets and supply pipes being added to take care of enlarged demands, and the whole system so administered as to give satisfaction to patrons and tax-payers.

You will observe that these two things are of equal importance and interdependent. The best watersheds in the world are useless without a good reservoir, and the best reservoir in the world is equally useless without a good water supply, and the two must be properly co-ordinated.

Now we have in the Federal reserve system a magnificent reservoir of tested capacity. Reversing the usual practice, perhaps fortunately and perhaps unfortunately, this reservoir received its first test not under normal conditions but under the strain of an unprecedented emergency. Nobly did it stand the test and few will be found to deny that, but for it, the financial system of this country would probably have collapsed in the great world war. We now desire not only to have the system revert to a peace basis, but to put on the finishing touches of its construction and so co-ordinate its activities with those of our individual banks that all may attain to their highest possible efficiency.

The first thing that struck me in considering this matter was that apparently in this case there was more room for improvement in the feeding streams than in the reservoir and that this was perfectly natural. Ever since the Federal reserve banks were established their officers have been working, studying and conferring with each

other without cessation, in the effort to improve the system and to devise additional ways of making it more useful to members whilst the members have not bestowed anything like a corresponding amount of attention on their end of the problem. I say this is perfectly natural for this study and these efforts to perfect the system formed the business of the reserve banks while to the members it was merely an incident among their numerous duties. And this brings me to my first suggestion: We member banks should now make it our business to study the Federal Reserve Act, the reserve banks, our relations with them, and the possibilities of utilizing their services to an extent not heretofore contemplated. Misunderstandings, minor disagreements, and criticisms are frequent and lost opportunities to receive benefits are legion, due not to ignorance or mental inability to grasp some complicated situation, but simply to the fact that individual bankers have not realized the importance of the subject, nor the advantages to their banks that were lying within their grasp, and have failed to familiarize themselves with the system. I wonder how many of us have carefully read the Federal Reserve Act with its Amendments. There should be a copy on the desk of every banker and he should give it at least one careful reading from beginning to end before considering it merely a useful book of reference for frequent consultation. Whether or not we fully approve of the system in all respects, it will pay us to study it carefully from an unbiased and sympathetic standpoint, and try to realize its big, broad purposes and possibilities, and cease to regard it as simply a machine to effect clearances and collections. To be fully up to date with our knowledge of its meaning and development we should also read all the circulars of the Federal reserve banks and the rulings of the Federal Reserve Board. These are so numerous that few of us have the time to comply literally with this suggestion. But we can, and should, in that case, appoint some one in our bank to read these and call the attention of the proper officers to all matters of importance. They are too valuable and important to be consigned unread to a waste basket, or what is practically synonymous therewith in many cases, filed for future reference without reading. Perhaps you will suggest that the reserve banks might co-operate by cutting down the number of these communications so as not to overwork the individual delegates to read them. Let us remember, however, that it is inevitable that these circulars should be more numerous now than will be necessary later. Many rulings have been necessary to explain and clarify the meaning of the Act, many rough places incident to a new structure have to be smoothed down, and no doubt many of us members have had to be instructed and educated.

So much for our preliminary education. Now, how can we co-operate? If you have frequent business transactions with another bank, or a

mercantile house, or an individual, a personal acquaintance with the man in authority clarifies and simplifies your problems to a wonderful extent. So now it will pay us well to become personally acquainted with the officers of our own Federal reserve bank, to discuss with them any matters we do not understand or of which we disapprove, and have a frank interchange of views. It would be well to send the heads of some of our departments to personally confer regarding the work of that department where it comes in contact with the reserve bank. In the case of country banks which cannot conveniently visit the reserve bank frequently, they should take up any difficulty direct with the reserve bank and not through a correspondent, and take it up as a frank discussion, and not as a complaint. Get as near as possible to the basis of a fact to face talk. To a certain extent the Federal reserve banks can co-operate in this by adopting generally a plan which one or two are trying with very satisfactory results. That is, by holding group conferences at regular intervals to which are invited representatives of all banks in a given section or of a certain class, until in the course of a year or less, every bank in the district has attended or at least has had a full opportunity to do so. At these conferences free discussions are encouraged, questions are answered, difficulties removed, misunderstandings cleared, and the larger purposes of the system made plain.

The Federal reserve banks should, and I think they do, welcome suggestions from member banks for the improvement and enlargement of their services, and we should feel free to make such suggestions, always, however, with a mind open to accept an explanation of the impracticability or the inadvisability of their adoption.

I think it would be well for the Federal reserve bank of a district to be represented at all State Bankers' conventions and bankers' dinners in that district, and when practicable, their representative should visit those country banks which otherwise might not come into personal contact with them. These traveling representatives should make their reports to their superior officers and matters of importance should be passed on to the Federal Reserve Board.

The Federal Reserve Board Act provides quite an elaborate and detailed plan for the nomination and election of Class A and Class B Directors. This plan was not made elaborate for the purpose of causing extra work, nor is it really complicated. But under it each of us has a full, fair opportunity for participation in the selection of directors. Let us see to it, then, to the best of our ability, that the best available men of our district are nominated.

We all know how seriously we are annoyed by the carelessness of a correspondent who does not handle his end of a mutual business in a business-like manner. Need I say that almost every reserve bank in the country would be saved an enormous amount of work and un-

necessary bother if we members were all careful to be business-like in such details as sending renewal notes on time, advising as to our wishes with regard to the disposition of maturing paper, giving accurate descriptions of collateral, seeing that all the notes we tender are legally eligible, wrapping and sorting currency properly, promptly returning bags, et cetera.

Since the advent of the Federal reserve banks, and due to their requirements, there has been a wonderful improvement in the completeness of the credit files of member banks. It is well worth our while now to endeavor to secure financial statements in proper shape from all our borrowers at regular intervals. This will work to our own advantage in lowering our loss ratio and also make all our paper, otherwise eligible ready for immediate use in re-discounts, thus forming a large, secondary reserve.

It is probably unnecessary to remind you that reserves should be kept up to the required amount in actually collected funds, but I am told that many of the smaller banks do not carry a transit account on their books but charge all items to the Federal reserve bank on the reserve account when deposited. Of course, their books can never agree with those of the reserve bank. Even the smallest bank should open such a transit account and each day the transcript should be checked up and discrepancies reported at once.

It would be a great convenience to the Federal reserve banks and also to each of us if all checks were of a uniform size and all bore the number of the Federal Reserve District as well as the A. B. A. transit number. Perhaps this is a little outside the scope of this paper and an attempt to make the improvement obligatory might meet with opposition from some of our customers, but I merely refer to it in passing and hope that in the future some method will be found for bringing about this reform at least to the point that the check of special size will be the exception.

In order that the Federal Reserve System may reach its fullest development and efficiency, it is essential that every eligible non-member bank should become a member. I understand that state banks and trust companies to the number of more than one thousand and representing more than 50 per cent. of the resources of all the state banks and trust companies of the country have already joined but the actual number of eligible non-members is still very large. Now, if so many have found it advisable to come in, and they are not all very large ones by any means, there is very little doubt that it would be advantageous to the others also, but they do not seem to realize it. Perhaps, it is in our power to do a little missionary work which would rebound to the benefit of the reserve system, ourselves, and of the converted heathen. Some large banks are said to be mildly discouraging these non-members from joining on account of their fear of losing their



reserve accounts. It is not easy to be unselfish in this world, but if the banks will remember the old cry that their deposits would shrink terribly when members transferred their reserve to the reserve banks, and how groundless was their fear, and will realize that the stronger and more efficient the system, the greater is their security, and their opportunity to make profits, they may realize that they can, from a very selfish standpoint, take an unselfish position and encourage these non-members to join and share in the benefits. Now, before we can be very satisfactory missionaries we must ourselves realize more fully than some of us do the benefits of the system to us in our own banks. I, therefore, suggest that every doubting Thomas and every lukewarm Laodicean take his pencil and figure the following:

1. Take your deposits and calculate how much was free for loaning purposes under the reserve provisions of the old National Bank Act, and your income from this plus the interest on reserves in the hands of reserve agents. Compare this with your income at the same rates on the loanable funds from the same amount of deposits under the reserve requirements of the Federal Reserve Act.

2. Consider the mobility of your present reserves.

3. Consider the decrease in your float.

4. Consider the ease of securing currency.

5. Consider the rate at which you can borrow.

6. Consider the opportunities for profit in business which you could not transact under the old law.

7. Consider the advantages of a secondary reserve in income producing acceptances.

8. Consider the possible future advantages of cable clearances and transfers in the world commerce which appears to be developing.

After you have assimilated the above, see whether you are yourself using your Federal reserve bank to the utmost.

Perhaps you may not have the time nor the inclination to enter into long arguments with the non-member and you will always find that the arguments of the man who does not wish to be convinced are very adroit and difficult to answer satisfactorily to him. But there is one argument that is easily used by you and difficult to answer. Ask him to confer with some state bank or trust company which has been a member for at least six months and ask whether they have regretted the step or would care to resign. You can rest on that and the argument is almost unanswerable. In this connection, may I call your attention to an excellent little pamphlet, issued by the Federal reserve bank of San Francisco, entitled, "State Bank Membership in the Federal Reserve System." This pamphlet contains 104 questions and answers and is not only good for this purpose, but incidentally, it puts the salient points of the Federal Reserve Act

before one in a form easily comprehended and convenient for reference. I shall quote but three of these bearing closely on this subject:

Q. "How does membership enable a bank to extend additional accommodations to its customers?

A. "The law requires the maintenance of a reserve proportioned to deposits. Experience shows that increased loans mean increased deposits, which in turn mean larger reserves. By re-discounting, a bank can at once build up its reserves and thus increase its lending capacity. The ability to re-discount with the Federal reserve bank is both surer and cheaper than borrowing from a correspondent.

Q. "Is it not true that the smaller banks have little if any, paper eligible for re-discounts?

A. "Many banks think they do not have such paper when in reality they do, or their paper can readily be put into such shape that it is eligible. This has been the experience of many banks throughout the country.

Q. "How may a member bank offset the loss of interest on its balances with the Federal reserve bank?

A. 1. "The deposit with the Federal reserve bank can generally be made in part from cash now carried in vault which is not drawing interest. Excess vault reserves are no longer necessary to be sure of maintaining the minimum required by state laws, and the Federal reserve bank can be relied upon to supply currency at any time.

2. "Member banks can safely carry much smaller excess reserves and have a part of the present excess reserves for loaning or investment; if invested in paper eligible for re-discount, it serves every purpose of a reserve, since it can be immediately made available. Paper eligible for re-discount has come to be regarded as a member bank's emergency reserve.

3. "Member banks can borrow at the Federal reserve bank at lower rates and with greater certainty than from correspondents.

4. "By using the check collection service of the Federal reserve bank the member can effect a saving in two ways:

(a) "Balances carried with correspondents solely for purposes of check collections may be discontinued, and these balances loaned at current rates. Since checks on the vast majority of banks can be collected at par and without cost, this is clearly a desirable thing to do.

(b) "Checks can be collected through the Federal reserve bank in the shortest possible time, since checks are routed direct. The funds thus become available for loaning more quickly than under the old system of indirect routing.

"The experience of member banks shows that the saving and added profits more than offset the loss of interest on the balances carried with the Federal reserve bank. One state bank has volunteered the

information that its profits have been increased 25 per cent. through membership."

In view of the importance of having non-members join the system, some have advocated measures designed to force them to join, and others have favored the granting of special privileges to induce them to join. Personally, I am opposed to both methods, though the suggestion which I am about to make may appear to have some of the elements of coercion. I do not think it fair to give them privileges not accorded to members, nor would I attempt to compel them to come in. Leave the matter to the slower, but less irritating, processes of education and growing intelligence. It is greatly to their advantage to join, more are seeing this every day, and in time all will realize it. Consider this point, however: Suppose you were members of a club which offered special advantages and valuable privileges to members, and you had invited a number of men to join, knowing that the club would be of great benefit to those men, and that the additional membership would enable it to greatly extend its usefulness. If those men failed to recognize this and failed to join, you would not think of attempting to compel them to adopt your views, but let me ask you this: Would you extend to them the benefits and advantages of membership without the payment of dues or the assumption by them of the duties and responsibilities of membership? I think not, and yet that is exactly what we are doing in this case in many instances. And therefore, on these grounds, exactly, and not as a measure of coercion, I suggest that we members refuse to be the medium for the collection through the Federal reserve banks of items for the benefit of banks which will not themselves reciprocate by remitting at par, and that we refuse to discount for eligible non-members when we are forced to re-discount with the Federal reserve banks in order to carry them, unless we do so at such rates as really pay us and are more expensive to them. There is no earthly reason why they should secure the advantages without the obligations and then say with some justice that there is no further advantage to them in joining the system.

Section 4 of the Federal Reserve Act enumerates the powers of the Federal reserve banks in eight items and my attention has been called to a paragraph in the eighth item, which reads as follows:

"Said board shall administer the affairs of said bank fairly and impartially, and without discrimination in favor of or against any member bank or banks, and shall, subject to the provision of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks."

A very high authority has asked me to express an opinion on the above and puts the question in this way: "Do you feel that as a

matter of conservatism on the part of a Federal reserve bank, and with the further idea of allowing the larger banks to continue their relations with the country banks, normal lines of credit, based either on capital and surplus or aggregate resources, should be allotted by the Federal reserve bank to the member banks, or should the entire question be left open to be determined as the needs of each particular occasion may arise?" My answer to the above question is of course nothing more than a personal opinion submitted respectfully, and with some diffidence. As for assisting the larger banks to retain their business with country banks, I do not think there is any obligation of this nature. Existing business arrangements should never be summarily swept away by law, but if a thing is for the general good, and its adoption is not going to seriously cripple the one affected, I do not think his more or less selfish interests should be allowed to interfere. Moreover, in this case I do not believe any large bank cares materially whether his country correspondent, who already has a right to borrow from the Federal reserve bank, is permitted to exercise that right to the extent of a considerable proportion of his resources or to a limit granted arbitrarily by the Reserve Board. If I am correct in the above, there remain only two considerations that would suggest the limitation to a percentage of capital and surplus or of resources. One is the limit of credit which can safely be extended to a given bank and the other is the limit of available resources of the lender and the desire for a fair distribution of these among the would-be borrowers. Neither of these considerations, to my mind, necessitates the fixing of such a limit. As for the first, some banks are absolutely safe for such advances to a limit of double their capital and surplus, and others question at fifty per cent. thereof, depending upon their management, the amount of their borrowings elsewhere, and the purposes for which they desire the proposed advance. I think the Federal reserve bank and the Federal Reserve Board can safely be granted wide powers of discretion on this point. As for the second consideration, whilst the loanable funds are not absolutely without limit, yet a legitimate demand can scarcely come heavily from all parts of the country at the same time, while under the present re-discounting arrangements among the Federal reserve banks the loanable funds can, and in the light of the experience of the past two years, I do not fear the exhaustion of the lending power of the Federal reserve banks through any legitimate demands.

There are two additional powers or duties which I think might with propriety and advantage be transferred to the Federal Reserve Board. One of these is the power to grant or refuse charters to national banks, now vested in the Comptroller of the Currency. The Federal Reserve Board is supposed to have power to grant or refuse, to state chartered institutions the right to join the Federal Reserve

System, yet I am advised that several cases have arisen where they refused admittance to a bank on account of the personnel or character of its management, whereupon the same individuals secured permission from the Comptroller to nationalize, thus automatically becoming members, against the judgment of those presumed to be authorized to pass upon the matter. The other duty to which I refer is that of examination of national banks. There are now three examining powers in the country, the state banking departments for all state chartered institutions, the Comptroller of the Currency for all national banks, while the Federal Reserve Board has a right of examination of all member banks. The first of these has inalienable rights so far as the government is concerned, and in general, their reports are accepted by the Reserve Board, without waiving its rights; it also accepts the Comptroller's reports as to national banks; at the same time, I think it would be advantageous to cut the number of examining authorities from three to two and that the files of the reports of these examinations should be where they belong, in the custody of the Reserve Board, which deals directly and constantly with the credit and management of these banks.

I recognize the fact that a self-evident corollary to the above suggestions would be a recommendation that the office of the Comptroller of the Currency be abolished. This has been recommended before and, so far as I am aware, the chief opposition to it has come from the incumbent of that office who regarded the movement as an attack upon him and his administration, and perhaps justly so. My thought, however, is entirely impersonal and I would be glad to see the plan adopted, effective upon the retirement of the present incumbent from office. The case is analogous to that of the sub-treasuries. The movement to abolish these, (which will probably succeed in the near future, as practically all the valid objections were based upon the conditions at the time it was attempted in the past) is being pressed on the ground that the Federal reserve banks can take over and perform the duties of the sub-treasuries. Similarly the Reserve Board can readily take over the duties of the Comptroller's office and, in view of the complete identification of the national banks with the Federal Reserve System, it is a natural move in the right direction.

We now come to the question of the possible extension of the services of the Federal reserve banks for the benefit of members. If we are perfectly frank with ourselves we will admit that many of the thoughts which occur to us and many of the suggestions of our friends are not based entirely upon an unselfish desire to improve the system, but grow out of a feeling that the reserve banks are making large profits and that we should have some of them. I have tried to free myself from this obsession and also to bear in mind that the profits of the past years were abnormal and we must not ask them

to go on a basis which will involve an expense not bearable in normal times, but a fair discussion of an equitable disposition of profits, if earned, is admissible.

Remembering that member banks furnish the entire capital and the greater part of the deposits of the Federal reserve banks, are they not entitled to share on some reasonable basis in the profits, whether abnormal and temporary, or normal and permanent? The government is entitled to an eventual profit in return for the very liberal charter and franchise rights granted, but is it entitled to the entire accumulation of surplus, no part of which can ever go to stockholders under present regulations? The present cumulative dividend of 6 per cent. is a fair return for the money actually invested in stock and should be continued, but when earnings are large they should be on some reasonable basis. I would like to see the member banks granted the right to carry Federal reserve bank stock on their books at amount paid in plus a certain percentage of its surplus. Such a price should then be paid for it by new members and at this price it should be taken back from members liquidating or otherwise leaving the system. In the matter of dividends, why not give them a 6 per cent. cumulative dividend on amount paid in and a lower rate, if earned, on the excess? Suppose, for example, we were allowed to capitalize 25 per cent. of the surplus and to receive 4 per cent. of this, and suppose the whole surplus of 100 per cent. of subscribed capitalization, which is 200 per cent. of amount paid in to have been earned and set aside. Even under these exceptional and ultimate figures our book value would be 150 and our highest possible dividend 8 per cent on cost to original members. Perhaps it would be less complicated to provide for a 6 per cent. cumulative dividend payable plus a small additional non-cumulative dividend payable only if earned and not to exceed two or three per cent. Is this excessive? If it is, then revise the basis, but adopt the principle.

For a long time I have advocated the payment of a moderate rate of interest on balances in excess of required reserve, believing that this was fair and would encourage many banks to be more liberal and not cut such close corners.

Abuse of the privilege could be prevented by limiting the amount on which interest would be paid to a certain percentage of excess over required reserve. Suggestions on similar lines have come from several of my friends also. I am not fully convinced that this would be bad banking but will frankly say that it has been opposed by the Federal Reserve Board, officers of reserve banks, and by national bankers of the highest standing in whose judgment I have the utmost confidence. Among other reasons they say that if interest is paid on deposits the reserve banks might in self-defense, in order to make their dividends, enter into competition with member banks. I admit

myself out-voted and partially convinced and will press the suggestion no further, being quite willing to compromise on the adoption of the above suggestion as to book value and dividends.

Now, without any further attempt to loot the treasury, permit me to suggest a few ways in which the reserve banks may increase their service to members. We must remember that during the abnormal times through which we have been passing they have been deeply absorbed in war work and I feel sure that they are already working toward the accomplishment of much that I shall suggest. For instance, the broadening of the collection system is known to be receiving their very active interest. Probably no department of their work is of as much generally recognized interest to members as this. Those of us who represent city banks with numerous collectable items are keenly interested in seeing all checks on the par list. Those country banks which make money on exchange feel aggrieved that they should be asked to give this up. Some of their arguments are very plausible but they usually show a lack of, shall I say sincerity, or consistency? A favorite argument is this: "Checks on this bank are payable at its counter and if you ask me to remit to another point for your convenience, I am entitled to be paid for the service. The fact that I lose nothing, and really gain by the deferred charge of my check sent in payment, has no bearing. You are asking me to render a special service. For this I charge so much and you can pay it or I stand by the letter of my obligation." Now, take the gentleman at his word and say: "Very well, we do not wish to pay for any extraordinary service or ask anything unreasonable, and since you prefer it, we will have all checks on you presented at your counter and take the cash to which we are entitled." He then cries out for mercy and says you are trying to coerce him. Not at all. If your grocer charges for each parcel delivered and you consolidate your orders and carry home your purchases in a basket, are you coercing him? Passing over the flagrant abuses such as excessive charges and remittances made by checks requiring additional time and expense to collect, is there any valid reason why checks on Vermont or New Hampshire should be collected free and those on South Carolina be subject to an exchange charge? A broader collection system must come. Some of the reserve banks have already succeeded in parring checks on every bank in their district. Let the others endeavor to do the same and let us do all in our power to help them. It may be necessary to continue, at least for the present, the practice of a deferred credit. There is no reason in equity for the entire absorption of the float by the reserve banks, but it will be a splendid service if they can shorten this deferred period, and, when they have learned what their earnings are in normal times, they may be able perhaps to carry the float on all items requiring not more than one day to reach their

destination. A moderate service charge is defensible, covering cost of service, and might properly be allowed to member banks, particularly for items not drawn on themselves, this being a very different thing from the so-called exchange charge referred to above. My own hope is that upon investigation such defensible charges will be found to be so small that they will be voluntarily waived. Notes, time drafts, and messenger items are being handled to some extent and we believe this service can and will be broadened as time goes on.

In this connection I quote two paragraphs from an interesting memorandum prepared by Mr. J. H. Ardrey, Vice-President of the National Bank of Commerce, New York: "The propriety of the Federal reserve banks absorbing the exchange charge on cost items has been questioned. Undoubtedly, however, the present as well as the prospective earnings of the Federal reserve banks permit them to easily absorb those charges without interference with their dividends. Furthermore, many member banks feel that they should receive a moderate rate of interest on their reserves held by the reserve banks, and still others suggest the payment of interest at even a higher rate, on balances in excess of required reserves maintained with the reserve banks. These proposals come chiefly from the smaller member banks, and from non-member banks as reasons for their not joining the system. Universal par facilities through the reserve banks would unquestionably be regarded by these institutions as fair compensation, in part at least, for their loss of interest on reserves and for their loss of exchange in remitting for collections sent them under the old order of things. The objection that it is unfair for the reserve bank to pay exchange for the collection of checks on non-members banks and not pay exchange to member banks is not sound, because with universal par facilities the member banks thereby save the cost in the collection of its non-member items, paid either in direct exchange or in reduced earnings, by maintaining balances for the service with city correspondents; whereas the non-member bank must still pay in these ways the collection of its own cost items on non-member banks and is deprived of the other benefits of membership in the reserve system.

"Along with the broadening of the facilities for the collection of cash items should come more liberal regulations for the collection of time and messenger items. Naturally, faster progress can be made with respect to the collection of such items payable in cities having reserve banks or their branches because of better facilities for their presentation, as well as the facility of immediate settlements through the gold settlement fund. The Federal reserve banks are now receiving for immediate availability on the day of maturity, subject of course to final payment, bankers' acceptances payable in cities having reserve banks or their branches, when deposited with the Federal reserve banks



sufficiently in advance to reach place of payment in time to be cleared against the paying bank of maturity; and there does not appear to be any good reason why the same privilege should not be extended to strictly commercial paper, payable at banks in cities having reserve banks or their branches. Likewise, there does not appear to be any good reason why the reserve bank should not immediately begin handling as cash, with appropriate additional time allowance if necessary, demand drafts, with or without documents attached, drawn on individuals, firms and corporations in cities having Federal reserve banks, or their branches, and in time further extending this service as the facilities are developed, to similar items payable at any point."

I have quoted the above because I believe that its suggestions are worthy of very careful consideration, but the latter part opens up a possibility of embarking the Federal reserve banks on lines which might be objectionably competitive with members, and I am not recommending it for adoption as a whole.

In conclusion, may I suggest a very interesting possible development of the activities of the Federal reserve banks through the building up of a regular market for acceptances, purchasing from those banks which wish to sell, and selling to those which wish to buy. This subject is too important and too technical to be adequately dealt with in this paper (already rather long), and I shall content myself with a brief comment on the subject, expressing at once my indebtedness to Mr. John E. Rovenaky, Vice-President of the National Bank of Commerce, New York, for a very valuable discussion on the subject, his paper being unfortunately too long to be quoted in full, and yet so concise as to defy abbreviation. The Federal Reserve Act has introduced the bank acceptance and made it available as a standard instrument of credit which will bear the rate of interest which money will command, with no addition to cover credit risk. Our banks of deposit naturally take the place of the Acceptance House of Great Britain, and with the establishment of a broad discount market where banks could buy acceptances when they had surplus funds, with the full assurance that they could resell without disturbing interest rates, when their condition changes, we would soon have a national discount market and its operations could soon be extended to an international basis. The advantages claimed for such a market are:

1. To regulate the cash and investment situation of the banks.
2. To equalize interest rates between different sections of the country.
3. To equalize interest rates between the United States and foreign countries.
4. To minimize the necessary gold movement between countries.
5. To stabilize interest rates within the country and so prevent some of the present wide fluctuations.

I thank you, gentlemen, for your very kind and patient attention

and, whether the particular suggestions in this paper meet with your favor or not, may I plead for hearty, sympathetic, unselfish cooperation in working out the great possibilities of the system and building up in this country the greatest and soundest financial system possible in this world. The foundations are laid on broad and comprehensive lines and there are vast possibilities for a magnificent structure if our activities are unselfish and constructive rather than selfish and destructive. (Applause.)

**PRESIDENT SANDS:** I feel that we ought to give a few minutes now to the discussion of this address, or any suggestions you may have. We will be very glad to give opportunity for discussion if any member desires to have anything explained.

**MR. WILBUR F. BEALE:** Mr. President, no thinking banking man can disagree with Mr. Waldo Newcomer's paper. On the part of the national banks I respectfully recommend to the Executive Committee that a Publicity or Educational Department be attached to each Federal reserve bank, in which department there shall be a corps of qualified, trained and equipped men. It shall be the duty of these men to call upon all the banks in their district at regular intervals, or when sent for, to explain to member banks their opportunities and advantages, many of which are now neglected or misunderstood. They could at the same time prepare the way for the examiners in newly opened or newly admitted banks, and in numerous cases, by personal effort and contact, would convert many state banks and trust companies to the advantages of joining the system.

**PRESIDENT SANDS:** The suggestion is that the Executive Committee take up with the Federal Reserve Board the matter of a Publicity Committee.

**MR. W. B. HARRISON:** Our bank is in the Tenth District, Wichita, and the Federal reserve bank in our district has made a profit this year which will show 100 per cent. net on its capital. Now we all know that we are going to make money, but the banking business is one of the few businesses in which the profit has not increased especially with the smaller banks. The prices in all other lines have been going up, but the interest rate has remained practically the same, and it does seem to me that a profit of 100 per cent. is too large a profit, especially

at the expense of the smaller banks. I think we should express our opinions here and I think that part of this profit should be given to the individual small bank. It seems to me that part of it, if possible, should be used for the benefit of such bank, and personally I believe it could be done.

**MR. T. J. DAVIS:** There was one item in the Federal Reserve Act regarding the banks carrying the float, and the matter was not touched upon by Mr. Newcomer, and I would like to ask if he had in mind the obligation of immediate clearing by Federal reserve banks instead of giving deferred credit, which requires a good deal of tedious care and throws the burden of the float back on the bank sending the item. The question came in the Cleveland district, to which we belong, and two of us, a gentleman who is with me from Cincinnati, Mr. Rowe, and myself went about through the west a little bit to see if it would be possible to recommend to the Federal reserve bank in Cleveland the installation of an immediate clearing, and we have never given up the hope that the Federal reserve bank may adopt that system, so that instead of deferring items that may be sent to them, they may be sent as has been the custom and receive a credit immediately for that item, and the Federal reserve bank may in turn make immediate debit. I would like to ask Mr. Newcomer if that has ever come up in his mind, or not?

**MR. NEWCOMER:** It was not my purpose in this talk to attempt to settle any of the technical questions of the banking system. I attempted to show how the Federal reserve banks and the member banks could come more closely together. I do not think that is a matter that should be settled on this floor, but I think it should be taken up and both sides given an opportunity to be heard. This question of float involves two big problems, an enormous loss to somebody, which must be absorbed some place, and if in addition you attempt to take all items for immediate credit you would swamp your men; they could not handle it. These things must come up gradually, and they must be handled gradually.

It may be a simple matter in the New York district, more simple than it would be in the Dallas district with its enormous

territory where it takes a week to get returns. I think this is just the kind of thing that the banks may well take up with their Federal banks and dig it out.

PRESIDENT SANDS: Any further discussion on the subject? We are now very much honored by having with us the Vice-President of the American Bankers Association, whom we all love and respect, and I have asked him to say a word to us at this time because he has to attend another Section meeting. But before he does, however, I want to acknowledge before this Section the very many courtesies we have received from the Executive Council of the American Bankers Association, and also through the friendship and cooperation of our very good friend Mr. Hawes, of St. Louis. We will now hear from Mr. Hawes. (Applause.)

Mr. Hawes spoke briefly.

PRESIDENT SANDS: If you were all not intensely interested in the subjects, I know you would not have been here this hot afternoon. We now have a very interesting subject to present to you national bankers, and we are very fortunate in being able to have this subject discussed by Dr. Harris, who was educated in Missouri, took a course in the University of Virginia, came to St. Louis in 1881 and practices law and has been trust officer since June, 1908, of the National Bank of Commerce; has been a frequent contributor to the daily and periodical press; is the author of a book well known, not only in the United States but Europe, and received the degree of LL.D. in 1912. We are certainly fortunate to have him discuss the subject of "The Trust Department of the National Bank." Dr. Virgil M. Harris. (Applause.)

## THE TRUST DEPARTMENT OF A NATIONAL BANK

VIRGIL M. HARRIS

My purpose today is to take up with you the practical side of the matter of the trust department of a national bank, and from inquiries received from all parts of the United States, and from gentlemen who have called on me in the last day or two, it is perfectly apparent that this subject is giving deep concern to bankers.

The strong arm of the United States Government has now been extended to national banks to enable them to act in fiduciary capacities, and now that this right has been granted, we wonder that it was not done before. It marks an important epoch in the financial history of this country. The eight thousand national banks of the United States are structures based on solid foundations and have, since their creation, been the chief bulwarks of financial strength and stability.

The Federal law, as originally passed, and the enactments of Congress of September 26, 1918, have been given so much publicity that I do not feel that any good purpose can be subserved by going into the validity of these enactments; but proper tests have been made in the highest courts of the land, and the way is now open for the enjoyment of the advantages afforded. The Federal Reserve Board has shown a keen interest in the promulgation of the law and in the regulations prescribed for the conduct of trust departments.

The entry of national banks into this new field of service is one which should receive serious consideration, and it is well at this date for bank officials to realize the marked difference between the time-honored usages of commercial banking and the principles which obtain in the operation of a trust department. Commercial banking, in an abstract sense, is largely a question of arithmetic. Safe banking depends upon loans amply secured; the interest takes care of itself; on the other hand, the assumption of fiduciary relations means the undertaking of grave responsibilities which are entirely new to national banks, and which can be successfully discharged only by experts and trained officials who have a thorough knowledge of the intricacies incident to all fiduciary matters. Nothing short of technical knowledge, coupled with years of training, will serve to avoid the pitfalls which beset those who undertake the administration of trusts and kindred matters. At a recent meeting of trust officers, the president of one of the leading trust companies of the United States said that not more than 2 per cent. of commercial banking gave cause for solicitude, but that he had found that 75 per cent. of the business which naturally falls into a trust department is fraught with complications and perplexities, and subject at all times to litigation; and I am free to say that after twenty years of experience, I heartily concur in his statement.

Let no national bank assume that the addition of the new line of work is a sinecure, for it requires more than a permit from the Federal Reserve Board to accomplish the desired results. It will be found that competition is keen, and rivalry will be encountered.

With those general suggestions, I shall pass to those features which, in my judgment, are the basic principles for success in the operation of a trust department.

1. Considerable misapprehension has arisen as to the exact nature

of a trust department of a national bank. Many well-informed people, including lawyers, believe it to be a trust company within a bank. Such is not the case. It is not a separate entity; it is a part of the bank itself, and as much so as the savings department or commercial department, and while this is true, yet the Federal law requires that the books and assets of the trust department shall be kept separate and apart from those of the bank itself.

2. I do not think that I am unduly praising my brother trust officers throughout the United States when I say, in all seriousness, that the selection of such an official is a matter of prime importance, and that in the history of trust companies I do not recall an instance of defalcation or betrayal of trust on the part of a trust officer. The duties of the trust officer are multifarious. He should be a lawyer, and a versatile one, for there come before him every form of business complication, and every phase of human character, good and bad. There is no problem, legal or otherwise, which our complex civilization brings forth, which he may not be called upon to solve. The orphan's cry, the widow's weeds and the lamentations and denunciation of disappointed heirs are every-day occurrences to him. He must have broad sympathies, and yet be firm in the performance of his duties. The trust officer should have a capable force of assistants and clerks at his command; he should receive from the executives cordial support and encouragement. The trust officer who possesses the necessary qualifications for his office is not easily found. One of the largest banks in the South, desiring to open a trust department, applied to me some time ago for a man to fill the position of trust officer. In spite of the fact that the salary offered was a large one, it required more than six months' time to procure a suitable man.

3. The trust department should be separate and apart from the other departments of the bank; the members of the official and clerical force should not be separated; it should have appropriate signs designating its location; it should be accessible, and its equipment first-class. No assistant or clerk should be taken into the trust department whose aptitude and ability have not been investigated. The trust officer, and those who assist him, should be well paid, for their hours are long and their duties exacting.

4. The trust department should not be a "dumping place" for undesirable transactions. One had lobster, it is said, will spoil a carload. Where it is clear that the business offered is undesirable, it should be declined with that alacrity and firmness with which the discount committee of the bank declines a loan which is not properly secured.

5. In the ordinary course of affairs, it takes about five years to establish a trust department; that is to say, to put it on a fixed and paying basis. The experience may be likened unto that of a doctor

or lawyer in establishing a paying practice; success does not come overnight; and during this period of probation, the desire to secure business should not outweigh sound judgment and discrimination in the nature of the business received.

6. Our world possessions are but life holdings, and the grace with which we part with them at the end of life's journey shows human character in its least disguised form. Wills constitute the most remunerative business which can come into a trust department. All the property in a community changes ownership once in about twenty-five years, and most of it passes by will. Much of the other work of a trust department is of routine nature. All wills are not desirable; some may be helpful and others may be harmful, and even though the bank has been named as executor, if it be ascertained that the emoluments are inadequate and that bitterness and family enmities must be incurred, the wiser plan is to resign and let some ambitious administrator take charge.

Many frugal-minded donors and testators are inclined to name several executors and trustees to act with a corporate executor or trustee. For all practical needs, one such is sufficient, but, in no event, let the compensation of the corporate executor or trustee be reduced to less than one-half of the commissions allowed, for the responsibility and the laboring oar fall to the corporate executor.

7. A national bank having established a trust department, the first duty of the directors and officers of the bank should be to lodge their wills with the department. It has been said that if a man has three true friends, he is rich, and this applies to a trust department; if the directors and officers will favor the department with their wills, it is well on the road to success. It is not to be expected that the patrons of the bank and the public at large will patronize an institution where the directors and officers fail to do so. The development of a trust department is a slow process. Fortunately, our friends do not die simultaneously. Dying is a ridiculously easy thing, and it does occur; and it is by deaths that the trust department is enriched.

8. It has been suggested that national banks are not qualified to handle trusts of long duration, by reason of the shortness of their corporate lives. This theory is absolutely without merit and without foundation, for national banks can and do automatically renew their charters, and usually do so with more ease and less friction than do trust companies. In this connection, let me say that of far greater importance than the longevity of national banks is the paramount protection afforded by the double liability of their stockholders. In the history of national banks, the loss to depositors has been practically nothing.

9. The fiduciary field in the United States is an extensive one and has scarcely been encroached upon by those acting in corporate fiduciary

capacities. The opportunity for national banks is boundless. The reasons for giving preference to corporate fiduciaries are now almost axiomatic. All that has been written and all that can be written on the subject, upon which these reasons are based, come from financial responsibility, continued existence, financial judgment, accumulated existence, and impartiality. All of the thousands of circulars, pamphlets and general literature which proceed from corporate executors can be traced back to the fundamental qualifications.

10. The welfare of the trust department and its growth, in its last analysis, rest upon the stability of the bank and the personnel of its directors and officers. The strength of the bank, its standing and integrity, are the chief advantages, and no amount of capital and deposits can possibly supply the prime factor of character and confidence.

11. The customers of a bank, including its depositors and its borrowers, from time to time, seek counsel and assistance in their everyday business affairs, and it is but an extension of this relation that they should place their estates in the hands of the bank for management after death.

12. Whether or not national banks in towns and in the smaller cities will be enabled to successfully avail themselves of the benefits of the new law is an untried problem, and one which only experience will solve. Some trust companies in towns and smaller cities have flourished, but the great wealth acquired has chiefly come to those institutions which are located in metropolitan centers. My own opinion is that a national bank situated in a county seat or in a city having a population of ten thousand inhabitants may accept the certificate from the Federal Reserve Board.

13. Let me say, with emphasis, that those who contemplate the establishment of a trust department should not assume the new relation unless there is a fixed determination to give it a fair trial, and to finance the enterprise for a considerable length of time. It is practically impossible for a corporate executor to discontinue the trust relation after it has been assumed, and in those states where a deposit is required to be made with the State Bank Commissioner to enable corporate executors to act without bond, the fund so deposited can rarely be recovered. The ramifications of the trust business are such that a termination of all of it is impracticable. So long as there is a trust of any kind open upon the books, the deposit must be held and cannot be lessened or withdrawn.

14. We are ushered into the world in a state of dumb amazement and go out of it in the same way, and most of our fortunes mechanically take their course. Less than ten per cent. of people dying leave estates of over five thousand in value. The attempt of the dead hand to guide the fortunes and destinies of those who follow is frequently attended with disaster, bitter hatred and lack of love



and reverence for those who have departed. Trusts of long duration rarely, if ever, work out perfectly. It is not given to us to see very far into the future. The stability of securities changes; wars come, and a thousand and one things may occur to thwart the benevolent intentions of the testator. Perhaps it is for our good that we cannot read the future, but if this foresight were given to testators, it is certain that many would change their plans and that many of those directions which we frequently find in wills would be left unwritten.

15. The advertising necessary and incident to a trust department, in my judgment, should always be of a dignified nature. The business of the trust department itself is of a serious and dignified nature. Pamphlets and brochures, if well conceived and if penned by hands trained in the work, have their advantages, when properly distributed. Newspaper advertisements which point out the capital and surplus of the bank and pointedly suggest the advantages offered by it serve to keep the name of the bank before the world, but for the most part, the paying business of a trust department, the part of it which brings the best returns, comes from personal touch, by reason of acquaintanceship and of family connections. A man puts into his will his well-reflected intentions. The execution of the will is probably the most serious act of his life, and he no more selects from the pamphlet or the newspaper his executor than he does therefrom get his religion. It is said that 91 per cent. of all American business is conducted through the mails. Letter writing is useful and has become a finished art. Unusual expressions in letters or in advertising, so far as the trust department is concerned, should be avoided, but appropriate advertising through intelligent channels will accomplish great purposes and break down apparently impassable barriers.

16. Strictly to be avoided are designing persons who have some worthless scheme to exploit. Acting as trustee under a worthless bond issue or coal project, or mine or oil proposition, may bring undesirable results, and your name may unwittingly be dragged into advertising schemes which you did not contemplate. The closest scrutiny should be employed before deciding to act as trustee or agent in any undertaking, however glowing its prospects, or whatever the compensation offered. A failure to detect the ulterior design may bring irreparable loss and sorrowful reflection.

17. In conclusion, I wish to say that whether or not a trust department is a paying adjunct of a bank depends largely on the individual case. It is possible to make it one of the very best sources of revenue to the bank. Speaking personally of the trust department of the bank with which I have the honor to be connected, I will add that in its first year of existence under the new law the return on a very liberal investment has far exceeded its most hopeful expectations. (Applause).

PRESIDENT SANDS: Mr. Harris has given us an enlightening discussion on the trust department of a national bank. If there are any questions that you desire to ask, I would like to have you do so.

MR. FOOTE: I would like to know about the examination of the trust departments. How they are controlled?

MR. HARRIS: They are examined by examiners the same as the banks of both state and national systems. Now if any of you gentlemen desire to go through our institution, we have the full force there and will be glad to receive a visit from you.

PRESIDENT SANDS: I have the very great pleasure of introducing the next speaker, who happens to be a fellow-townsmen of mine and an old friend and I guess I can take some liberties with him. During our recent bond campaign in Virginia and throughout the South he gave us a great deal of trouble; he caused all of us a great deal of annoyance and I have held that against him and decided to get even with him if I ever got a chance, and this is my opportunity. We were appealed to from all over the country to send speakers, and we would telegraph them the names of the speakers we proposed to send and they would telegraph us: "Send us D. S. Freeman," and how to get Dr. Freeman to four different places in a single night is what worried the chairman almost to death. I asked the Doctor: "What are you going to talk about this afternoon?" and he said: "You heard the comparison of the ancient and modern skirts; the hoop skirt flared way out, it covered everything but touched nothing, and the modern skirt is almost the opposite, it touches almost everything, but covers nothing." I don't know what he means by it. I know he has the qualification to address you. He is editor of *The News Leader* of Richmond, Va., and has done unusual work during the war, and he is to speak to us on "Some Unconsulted Ledgers." (Applause.)

### SOME UNCONSULTED LEDGERS

DOUGLAS S. FREEMAN

I wish, with your permission, to turn to some of those unconsulted ledgers of old experience and to see if we may not find writ there

in the bold black ink of assurance a balance of duty yet to be done and an undistributed surplus of good hope that we may distribute among ourselves.

It looks to me and to you, as we face the financial problems of today, as though after bearing the burdens of the war we had been singled out by the hands of Providence, but as a matter of fact each generation has had its problems. I wonder if there were ever a body of bankers that didn't feel the same way. Those who preceded us had to meet the bogie of free silver.

So it seems that from one generation to another, bankers have had their problems, and I dare say every generation of times past has thought its problems as acute as those we face. In a larger sense I find that a peculiar situation, and it not only confirms what I said about the tendencies of the bankers in times past, but it heartens us in that we find that everything we are attempting to do today has been attempted in times before, and further in that it shows that all these industrial problems of this present hour have come up in other generations.

When you go home take, if you please, your histories and turn to England in the period after the Napoleonic wars and you will find that many of the problems that England now has, were had then; you will find that the same cry was raised then of an industrial relation, in fact, that it had been accomplished while the nation was in struggle, yet you will find that within a few years England had written the Reform Act that was the crown of great achievements of the Victorian Age.

Read what happened in the riots of England and read of the French riots in 1848 when France herself tried to weather a doubtful experiment, and if again you are asked by a customer what he may anticipate in the future you will wisely say you know not.

If you will turn to Irving's book on interest, you will find that after the war between the states, the average rate of interest was higher in New York for the five-year period following the war than it was for the five-year period of the war, and I think you will find while history is not repeating itself, history is, nevertheless, giving us rich warnings of what we may expect. But, gentlemen, in spite of the consolation that we may find from the interpretation of history, who can deny that there is in America today a profound industrial unrest? Problems new to us are not new to the world, hence must accrue our dividends for prosperity, and here I beg of you to turn to the unconsulted ledgers and see in what manner we have heretofore faced most of the difficulties that have confronted us.

May I name the five essentials with which we must face our present industrial problems? The first of these is the spirit of determination. I find in America today quite a peculiar disposition on the part of

some employers, and the same on the part of some employees, and it reminds me of nothing so much as of that famous old citizen of Richmond who in the antebellum days was challenged by the famous duelist of the south to meet him in mortal combat. Never in his life had this man been known to use a weapon in combat, yet he readily, on the day before the combat was to take place, bought a saddle that would normally last twenty years and bought a bridle, and had the stirrups adjusted to his own length, he was so confident that he would win. Someone asked this old citizen why on the day before the duel he had the courage to go down and buy himself such a fine saddle, and he said that the secret of it was confidence. He said, "I was absolutely confident and determined that before the duel took place, if the other man didn't apologize, I would; therefore," he said, "I had nothing to apprehend."

I find in a great many of the controversies now disturbing America a disposition on the part of employers, and also on the part of employees, that if the one side doesn't give in, the other will. I beg you do not let this spirit of compromise, or of bluff, shut your eyes to your duty to be determined. Every strife has to be determined for justice and I do not believe that any man who has red blood in his veins ever acts unfair in any controversy if he knows that justice is on his side. The determination of America today should not be to fight, but to be just, and then if need be to fight in the full knowledge that victory will come. That, I think, is the first lesson to be drawn from these old unconsulted ledgers.

And the second, from your point of view, is that you must recognize and remember that you bankers are the conservators of capital and the promoters of thrift. There was a time when if it was reported that you declared a 15 per cent. dividend, every customer, as you know, would say that you are making too much money. Now there are men who pass your doors who, if they made no larger dividends on their investment than you make on your capital and surplus, would come to your bank tomorrow and confess themselves ruined.

Thank God the bankers have lost the stigma of being America's rich class, that you represent exclusively the so-called capitalistic class which is the object of hatred of so many. I plead with you, if you are to do your full part, be the arbitrators, the go-between; as you are the conservators of capital, so I beg of you to be the promoters of thrift, and you are not less worthy of speaking for labor than you are to be speaking for capital.

Incidentally may I remind you that I have found that the difference between the banker and the loan-shark is that the one's first dividends are in service rendered, and other's in the dollars he received. I have in the observations of my travels noticed that in all industrial knife-play the hand that shaves paper is the hand that gets cut,

and I do not consider that a peculiarly startling observation. I say to you, gentlemen, that we can no longer have one-legged bank men driving the motive power of this nation's industries. It is no place for a one-legged man. I have often heard it said that in the churches it was found wise to have a one-armed man to take up the collections. The reason I oppose the one-legged man driving the motor of the nation's industry is because he must have one foot ready to put on the accelerator of thrift; sometimes he will need another foot if he has to put the brake on extravagance. And so I say to you, gentlemen, it is for you to be the conservators of the one and the promoters of the other.

The third lesson that I read from these old unconsulted ledgers is that we should not emulate nations in the manner in which Carlyle said they became acquainted one with another. I believe there should be established closer contact between those elements of our industrial life. I believe that four-fifths of the misunderstandings of life are due to misconnections, many of which would disappear if we established a full circuit of contact; if that were done I believe that most of the class hatred and most of the misunderstandings would vanish. Mr. Wilson quite aptly used the quotation of Charles Lamb, "I hate that man." "Why," said one of his friends, "Charley, do you hate that man? I didn't know you knew him." To which it is said Charles Lamb replied, "I don't know him; I couldn't hate him if I knew him." There is a lesson in that. Class hatred in America has its origin in the fact that one class doesn't know the other.

The fourth lesson that I read from these old unconsulted ledgers has to do with what is very often neglected in America, the code of common sense. I believe from the bottom of my heart that one-half of America is crazy today, and thinks the other half crazy, and I'll be doggoned if I know to which half I or anybody belongs. Common sense in America seems to have taken a vacation moratorium on common sense. You pick up the papers, hear the speakers, arguments on the corners, or the leather cushion arguments in the club on the economic problems of the country and you will think as I do.

After all, the great thing for America to do is to go back to the code of common sense. I have jotted down on this sheet of paper a few practical maxims as they need be applied. Will you pardon if I read them to you:

Bolshevism, a nightmare come true, that which the envious have always thought but seldom attempted, is the rule of an extreme. It might just as readily be of the rich as of the poor; it might differ in intelligence but not in principle. Tyranny of the poor is worse than that of the rich only because it is more ignorant.

Liberalism is the last preventative of Bolshevism. Liberalism is

moderation. "Let your moderation be known in all things," especially in your discount rates.

Moderation, applied, is utilitarian and maintains that in a democracy the demands of any class must be scrutinized and accepted or rejected as they are for or against the welfare of the whole. This must be done fairly.

We must say, "Sit tight in the boat," and deep down in our hearts we must resolve, "The hand that rocks the boat must never hold the helm."

We must remember that we are, in Paul's words, "All members of one body." And if the head sometimes complains that a certain lower member gives it the stomach-ache, the lower member may reply that the head chose the food that produced the ache.

In our social interdependence we must not overlook the relation of any specific problem to the basic principles of economic production, distribution and consumption. Wages are capital in the making. The surest way to lose a legitimate profit is to seek an illegitimate one. The trouble with most of us capitalists and non-capitalists is that we insist upon leaving the "I" out of profiteering.

Unnecessary purchasing is almost as much responsible for our ills as reduced production and lowered reserves of economic goods; many a man's cupboard is empty because his wardrobe is full.

Some men of late have been making dollars so fast that the money is hot and burns their pocket; and as for Old Mother Hubbard, she is now Madame Ala Mode. It is not the serpent in the garden that troubles the modern Eve, it's the dress on the other woman's back.

These, gentlemen, are the commonplace maxims of a workaday world, but they lead to the fifth, the final and it seems to me the decisive factor in the balance; they are commonplace you admit, and yet it seems to me they are inextricably bound up in the last and decisive factor:

**THE SPIRIT WITH WHICH WE FACE THE PROBLEMS OF TOMORROW, FOR THE PRIME NEED IS NOT TO MULTIPLY THE HEYWOODS.**

Smuts said in his farewell, "the old world is dead around us; let it die within us." What we need is a new frank spirit that we find from the method of the Lord when he said, "Come let us reason together." We find something of the spirit that Edmond Burke had in mind when in a dark hour of Britain's history he pleaded for a display of sweet reasonableness. We need a new frank spirit with which to face the problems of a new world, and I believe, gentlemen, if we have that spirit we can look forward unafraid.

I think sometimes that I hear about me the reverberations of a storm that soon will engulf us; I hear sometimes voices in the

night crying discord; then again I am heartened by the assurance that the one thing in this world than can never fail is Right. And the one thing that is always applicable is Justice; and the one thing we most want is Love. I still believe that class-consciousness need not be fatal, if we make class-consciousness conscientious.

You remember in 1871 when the treaty of Frankfort was signed there were still many French students in the schools. One day, in a school occupied by the Jesuits, the men were preparing for a class when they were interrupted by the echo of guns. The old preacher bowed his head and listening to the sounds, said, "My children, pray for the future of France." While the guns roared without, and the lads in the school bowed in prayer, there was one in that class who as he bowed in prayer made a vow. Years afterwards when he came back to Metz at the head of a conquering army he said, "Today I paid the vow I made when the treaty of Frankfort was signed." That man happened to be Ferdinand Foch. As you hear the thunder of the guns that celebrate the signing of the treaty of Versailles or Frankfort, sounds that are in the judgment of many the sounds of coming strife, remember this, that while there need be men today to pray for the future of America, there is also need for men to make their vow that America shall be hereafter as she is today and as she has always been—a land of fair play, a land of equal opportunity. (Applause.)

MR. J. ELWOOD COX: I move that we manifest our appreciation of this splendid report by a rising vote of thanks. (All arose.)

PRESIDENT SANDS: We have a number of matters yet to take up. We receive from the Executive Council practically everything we ask for except money. We don't get quite enough money to perform the service to the members that we ought. I am going to be plain about it and I want to tell you that we have done everything possible with the funds that we have. Next year, with an increased revenue, we expect to do more. If you will look at the Treasurer's report you will see that every cent has been accounted for in some service.

One very important matter that should be acted upon at once, and a matter that gives me a great deal of pleasure to announce to you, is that we have been permitted by unanimous vote of the Executive Council to increase the Executive Committee of this Section from six to twelve members. It was realized that we did not have a large enough committee to cover

the whole of the United States, and therefore we are going to have, next year, twelve members of this committee, and we hope to get the ablest bankers in the United States to serve. In order to make that legal and bring that about, it is necessary to amend our by-laws increasing the committee, and I am pleased to inform you that in advance of our action here the Executive Council has given us unanimous authority to make this increase.

MR. J. A. PONDROM (Houston, Texas): Mr. President, I desire to offer the following resolution:

*"Resolved, That By-Law number two of this Section be amended to read as follows:*

*"Section 2. The administration of the affairs of this Section shall be vested in a President and a First Vice-President of this Section, and an Executive Committee of twelve members, who shall serve until their successors are chosen and appointed, no two of whom shall be from the same Federal Reserve District."*

I move its adoption. (Unanimously adopted.)

MR. PONDROM: I have here another resolution:

*"Resolved, That By-Law number five of this Section be amended to read as follows:*

*"Section 5: The Executive Committee shall be elected at the annual meeting by the members of this Section, four being elected each year to serve for a period of three years, except that at the first election after the adoption of this amendment two members shall be elected to serve for one year, two for two years, and four for three years, and thereafter members shall be elected for three-year terms, except, in case of a vacancy, which shall be filled by an election for the unexpired term. No officer or member of the Executive Committee shall be eligible for re-election until one year following the completion of a full term of office."*

I move the adoption of the resolution. (Unanimously adopted.)

SECRETARY HYDE: I wish to make an announcement concerning tomorrow. We will have our next session in this hall tomorrow at 2:30 and that means exactly 2:30, and there will be a larger number of seats than we have here today. Honorable



John Skelton Williams, Comptroller of the Currency, comes here to speak to us at great personal sacrifice and I hope that every seat tomorrow at 2:30 will be filled.

**PRESIDENT SANDS:** The next thing in order is reports of standing committees. The Committee on Acceptances, Mr. Jerome Thralls, chairman.

**MR. THRALLS:** With the consent of the President and this body I will refrain from reading my report. I will offer the report which is the same as that made to the general Association and move its adoption.

The report was unanimously adopted.

## REPORT OF COMMITTEE ON ACCEPTANCES

### JEROME THRALLS

Your Committee entered upon its duties with the firm belief that the credit system of this country could be greatly improved and its financial position could be greatly strengthened through the proper adaptation of the American acceptance method of financing.

After careful survey of the situation it was determined to merge the work of the Committee with the American Trade Acceptance Council. The present Chairman of your Committee was shortly thereafter made Chairman of a special Committee charged with the responsibility of reorganizing the Council with the view of broadening its scope of activities to include bankers acceptances, the development of the open discount market and other vital problems of common interest to the bankers and business people of America.

This special Committee called a conference for January 21, 1919, in New York—250 leading business men and bankers from throughout the nation responded. The American Acceptance Council was organized with a membership of over 150 banks and business concerns—each paying annual dues ranging from \$100 to \$500.

The officers of the American Acceptance Council are Lewis E. Piereson, President, Arthur Reynolds, Vice-President, Jerome Thralls, Secretary, and Robert H. Bean, Executive Secretary. Paul M. Warburg is Chairman of the Executive Committee, Daniel G. Wing of Boston, first-Vice-Chairman, Fred I. Kent of New York, 2nd Vice-Chairman. You are represented on this Committee by Messrs. Sands and Thralls. On March 1, 1919, the Council established offices at 111 Broadway, N. Y., and started a nation-wide campaign to drive home to the business men and bankers the true merits of both trade and bankers acceptances. On June 9, 1919, the Council held its first annual acceptance Convention

at Detroit—over 600 prominent business men were present. Every phase of the acceptance subject was discussed. Since then an official publication, the Acceptance Bulletin, has been published and the following pamphlets containing authoritative information have been printed and widely distributed by the Council.

The Trade Acceptance—a Statement of Principles by Paul M. Warburg. The Acceptance as the Basis of the American Discount Market, by John E. Rovensky, Vice-President National Bank of Commerce, New York; The Bankers and Trade Acceptances, by Geo. Woodruff, President, First National Bank, Joliet, Ill.; American Acceptances and Foreign Trade, by Fred I. Kent, Vice-President Bankers Trust Company, New York; Dangers to be Avoided in Trade Acceptance Practice, by David C. Wills, Chairman of the Board Federal Reserve Bank of Cleveland; Trade Acceptance Experience, James A. Green, President The Matthew Addy Co., Cincinnati; Acceptances in our Domestic and International Commerce, by Paul M. Warburg; Domestic Acceptances—Financing Warehouse Staples, by R. S. Hecht, President Hibernia Bank and Trust Co., New Orleans, La.; The Proceedings of the First Annual Convention and various leaflets giving the experience of acceptance users.

The Council has found that many people are confusing Trade and Bankers Acceptances and is therefore treating the subjects separately. The remainder of this report will be sub-divided accordingly.

#### Part I. TRADE ACCEPTANCES.

The Council has devised and recommends the following form for general use. (Exhibit A—attached.) This form is designed with due regard to law, the rules and regulations of the Federal Reserve Board, and the various Federal Reserve Banks. It is approved by the Council of the Federal Reserve Board and the counsel of the American Bankers Association and various other leading authorities. This form may be altered to meet the needs of any particular line of trade. The Council recommends, however, that the form used be as simple as possible and free from entangling notations that might hamper or hinder the negotiability and retard the movement of the completed bill in the market.

The list of known users of the trade acceptance has grown rapidly, having increased over four thousand in the period of one year. It includes practically every line of industry and all sections of the United States. Out of the reports received not one single valid objection has been presented where proper use of the Trade Acceptance has been undertaken. In every legitimate case the instrument is praised most highly. Experience has actually demonstrated that the use of the trade acceptance enables an equal amount of capital to do a greater amount of service. It has also enabled its users to reduce their bills payable account, to buy a greater amount of Treasury Bills and to handle without

difficulty, the increasing volume of their business with the attending high prices, to shorten the credit period, to reduce the number of claims and disputes, to afford a definite check-up on all transactions and to generally stabilize their business—producing at the same time a great volume of liquid paper—eligible for re-discount at the Federal Reserve Banks and for service as the basis of currency issue.

The greatest success with the trade acceptance has been noted in cases of united action of a whole trade. That is where the trade acceptance was made a term of sale. This was done by the flour milling industry in the State of Washington, the lumber mills of the West Coast, the National Raw Silk Dealers, a number of hardwood manufacturing associations and various others.

As an indication as to the growth in the volume of trade acceptances no better index can be had than the figures of the Federal Reserve Banks—which show that they rediscounted in 1916—over 5 million dollars—1917 over 37 million dollars, and in 1918 over 187 million dollars of trade acceptances, and at the same time purchased in the open market in 1916—16 millions—1917 over 37 millions, and in 1918 over 61 million dollars worth of such bills.

The path has not been smooth all the way. Some real problems have developed and now confront the banking fraternity. They are (1) The general demand by the users for a preferential rate when trade acceptances are offered for discount. (2) Arranging a fair and satisfactory schedule of service and collection charges for handling trade acceptances. (3) Devising the most efficient and economical method of handling trade acceptances in the banks and business houses. (4) Perfecting a comprehensive market for trade acceptances.

Regarding the first problem—It is unfortunate that business people generally were led by certain enthusiasts to believe that a preferential rate of  $\frac{1}{4}$  to  $\frac{1}{2}\%$  would be accorded by banks when discounting trade acceptances, because preferential rates were quoted by Federal Reserve Banks. It should be remembered that a lenders' market has prevailed for many months and the banks have found ready use for their funds at favorable rates. Until conditions change rates may fluctuate but in no event will all trade acceptances find a ready market at a preferential rate. Banks and other investors will take into consideration the name and character of the drawers and acceptors. The prime names will be accorded a better rate than the unknown names.

The second problem—Arrangements should be made with the American Acceptance Council for the appointment of a special committee of bankers and business men to work out a satisfactory schedule of service exchanges and collection charges. Many trade acceptance users have the idea that trade acceptances can be handled on the same basis as checks and that they should be collectible at par through the Federal Reserve Banks. They have also misunderstood the action of the New

York Clearing House which refers to clearing of local trade acceptances as meaning trade acceptances payable at any point in the United States may be cleared or collected at par through New York or other principal clearing centers.

The use of the trade acceptance will transfer to the bank much labor heretofore done in the business house. The business house will be relieved from sending letters, drafts, duns and other notices. By the concentration of this work in the banks it can be done at less expense but whatever the expense it certainly should be borne by the trade acceptance users.

It is believed that on thorough explanation of this point the users would be satisfied to pay a reasonable fee for the service and cost of collection of acceptances. It is necessary to send trade acceptances to the place of payment before maturity. They must be ticklerized on receipt and carefully watched until maturity. From origin to the point of payment the work in handling trade acceptances is greater than that involved in the handling of ordinary checks. But since trade acceptances payable at banks may be charged to the accounts of acceptors in most of the states—their use obviates the necessity for the issuance of checks to pay the bills the acceptances displace, thereby affording a big saving in labor and expense.

The third problem—That of devising the most efficient and economical method of handling trade acceptances in the banks and business houses should be delegated for solution to a Committee of bankers, trade acceptances users and accountants.

The fourth problem—That of the development of the market must necessarily be a slow one. Many leading banks are turning their attention to trade acceptances as an investment in preference to commercial paper, but they consider only the very best names and it is certain that the bulk of trade acceptances taken by concerns outside of the large financial centers must find lodgment in the local banks. The expense of investigating the names alone would preclude them from finding their way to the open market.

Although great progress is being made with the trade acceptance system of merchandising, its maximum of success depends upon the bankers. The merchants and others who are called upon to sign trade acceptances usually consult with their bankers. If their bankers are well informed and desire to aid in placing the credit merchandising business of this country on the soundest possible basis, they will advise the signing of the acceptance, otherwise the chances are they will not.

## PART 2, BANKERS' ACCEPTANCES.

Bankers' acceptances have been a most valuable aid in the financing of our export and import business. The extent of their use has expanded rapidly as is evidenced by the fact that the number of accepting banks

now exceeds 500, while the number in March, 1919, was reported as 362 with acceptance power of \$1,027,275. The volume of outstanding acceptances of these (362) institutions in March was \$451,265,000.—99 National Banks and 35 State Banks and Trust Companies had qualified for the 100% acceptance privilege. They had accepted 86% of this total—the 228 others being responsible for 14% only.

A further index to the growth of bankers' acceptances is given in the report of the Federal Reserve Board for 1918. It shows the purchases in the open market by the Federal Reserve Banks in 1916—\$386,000,000.—1917 \$1,077,700,000. and 1918—\$1,809,500,000. The purchases for the first seven months of 1919 were \$1,369,582,000.

Our acceptance power has been further augmented by the formation of acceptance houses and through a great number of strong private banking houses such as J. P. Morgan & Co., Brown Bros. & Co. and Kuhn Loeb & Co. of New York, having filed with the Federal Reserve Bank statements and the necessary agreements to permit them to accept.

Great headway has been made by Discount Corporations and other acceptance dealers in the effort to develop a comprehensive open discount market. The combined portfolios of these concerns run an approximate average of 80 million dollars or about  $\frac{1}{4}$  of the total acceptances outstanding. The dealers stand ready to purchase high grade bankers' bills at all times. The prevailing rates range from  $4\frac{1}{16}\%$  to  $4\frac{1}{2}\%$  for 90 day bills;  $4\frac{1}{4}\%$  to  $4\frac{3}{8}\%$  for 60 day bills; and  $4\frac{1}{16}\%$  to  $4\frac{1}{4}\%$  for 30 day bills. The dealers, in turn, sell the bills to investors (individuals, corporations, banks and others) at a profit of from  $\frac{1}{16}\%$  to  $1\frac{1}{8}\%$  per annum. One of the greatest obstacles to the development of the market for bankers' acceptances is the short term United States Treasury bills.

Another obstacle is the present plan of handling the Stock Exchange call loans. Many banks send funds to New York to be loaned at call on the Stock Exchange. It is believed that the practice should be curbed and a plan of periodical settlements should be arranged. These reserves should be invested in a character of paper that is readily convertible, such as bankers' acceptances.

Another difficulty is the rates fixed by the Federal Reserve Banks. In some districts, the Federal Reserve Banks have given a rate of  $4\frac{1}{2}\%$  to 5% when re-discounting for their members 6% commercial paper, at the same time quoting a like rate on acceptances.

The rate on 15 day notes secured by single name paper is the same as it is on 15 day bankers' acceptances and oftentimes a better rate is allowed by the Federal Reserve Banks on 15 day notes secured by Government obligations.

A great number of accepting banks have not yet realized that in order to develop the business along the right lines they must at certain periods

become acceptance buyers and should discontinue the practice of swapping bills, which means getting and giving accommodation endorsements.

Another handicap to the dealers is the difficulty to get at preferential rates a sufficient quantity of funds to carry their portfolios. If they are required to pay the regular loan rate for funds it wipes out their margin of profit or forces them to sacrifice the bills.

Some of the Federal Reserve Banks, particularly the Federal Reserve Banks of Boston and New York have been quite liberal in aiding the carrying of acceptances by purchasing the bills under the 15 day re-purchase agreement.

The commercial and industrial interests of the country are greatly benefited from the use of bankers' acceptances because of the bankers being enabled through their use to grant them the accommodations under proper conditions in excess of the 10% limit fixed by Section 5200.

It is found, however, that some bankers are abusing this privilege in that they do not keep the acceptances properly secured where the amount of the accommodation is in excess of the 10% limit.

There has been considerable demand for an amendment to the law providing for an increase in the limit as to the volume of acceptances that may be made by any one bank.

It is believed by your committee that this feature should be carefully safe-guarded and that if a greater limit is fixed, it should be subject to the control of the Federal Reserve Board.

A preference is being shown for endorsed bills and for bills of members of the Federal Reserve System. The Clearing House rules in a number of cities have been amended so as to permit acceptances to be exchanged through the regular clearings.

A number of unusually large foreign credits have been arranged during the year under the acceptance plan. These include the Belgian credit of 50 million, and the Czecho-Slovakian credit of 6 million dollars.

Fully 75% of the bankers' acceptances cover export business and about 64% of the bankers' acceptances now being issued are accepted by financial concerns in the cities of Boston and New York. During the year arrangements have been made under which acceptances made payable in any Federal Reserve or branch Federal reserve bank city can be collected through the Federal Reserve Clearing System and settled for through the Gold Settlement Fund.

Under this plan, an acceptance payable in St. Louis, can be converted by a New York bank into reserves on the day of its maturity.

Your Committee believes that every endeavor should be made to develop and properly guide the acceptance method of financing in this country and it recommends to every bank that desires to avail of its acceptance privilege, that it first communicate with the Federal Reserve Bank of its district in order to get the necessary instructions to make

certain that its bills will be drawn in accordance with the desires of the Federal Reserve officials, and secondly, it should get in touch with its reserve city correspondent and get from that source advice and suggestions.

It should also communicate with some good discount house or other dealer in order to make certain that its bills will be drawn in a form that will make them readily convertible in the open market.

The committee further suggests and recommends the appointment of a committee of three to be charged with the duty and responsibility of preparing and disseminating among the members of the American Bankers Association a pamphlet setting forth in clear and understandable terms

- (1) What acceptances are
- (2) How they may be used
- (3) Why they should be used
- (4) The dangers to be avoided in their use.

This pamphlet should include sample forms and all information that is needed in order to enable any banker or any business concern immediately to institute the acceptance method of financing.

Respectfully submitted

E. KIRBY SMITH.

WALTER W. HEAD.

JEROME THRALLS, *Chairman.*

St. Louis, Mo.,

Sept. 30, 1919.

The meeting then adjourned.

## SECOND SESSION

The second session was held Wednesday, October 1, 2:30 P. M., in the ballroom of the Planters Hotel.

Secretary Hyde read a letter from Hon. Carter Glass, Secretary of the Treasury, expressing his regret at his inability to attend this meeting.

MR. HINSCH: Mr. President, I move that we send a telegram of greetings to Hon. Carter Glass and express our regret that he cannot be with us. (Motion carried.)

PRESIDENT SANDS: It has been the rule of the National Bank Section to invite the Comptroller of the Currency to address its members upon the occasion of its annual meeting. This is the most proper and fitting thing to do by reason of the in-

timate relationship which exists between the office of the Comptroller of the Currency and that of the National Bank Section. The Congress of the United States has placed in the hands of the Comptroller the administration of the laws under which the national banks operate and has put upon that official the responsibility of administering those laws, which are designed for the good of all the people. The Comptroller of the Currency is under oath to administer these laws without fear or favor. The present incumbent has been at the head of the national banking system of this country for a number of years and at a time when the banking system of the country has undergone changes which have lifted it from perhaps one of the most unscientific banking systems in the world to a system which has been pronounced by the leading bankers of the world as the best known and which has met every requirement of a period unparalleled in the history of the commercial and financial world. Mr. Williams is known in his home town as an honest and courageous man, standing for all that is right and good in his community. In the administration of his office he has done what he conceives to be a sworn duty and the results of his administration speak louder than any words of mine. There is no doubt that the business of every class of banking, particularly that of national banks, is today conducted upon a much higher plane with a fuller realization on the part of the officers and directors of the banks of their duties and obligations than ever before. Fellow bankers, in my judgment we are under great obligation to the present Comptroller of the Currency for the able manner in which he has conducted the affairs of his office. I take pleasure in presenting the Hon. John Skelton Williams.

## AMERICA AS ATLAS

JOHN SKELTON WILLIAMS

Let me ask your attention to the thought and the fact that the bankers of the United States have just finished the performance of one miracle and are beginning another. They have done the swiftest and most important job in all the history of banking and finance and



now face work demanding even more of their wisdom, their resourcefulness and their genius. The Atlas of mythology carried the world on his shoulders. You bankers in reality are to supply the strength and sinew with which this republic is to lift and for a time, at least, carry a world yet seething, after the extinction of the fiercest of the flames that threatened to consume its hope.

Having this in mind, I feel especially honored by the opportunity to address those who have achieved such mighty tasks and written in history a chapter of accomplishment so wonderful. Therefore I am deeply grateful to you for asking me here and beg you to believe that I thank you heartily.

Since I last had the honor of speaking to you, three years ago at Kansas City, you have furnished our government the funds with which the war was won. You not only obtained and supplied from your own resources, and by your stimulation and aid to our people, the funds to equip and maintain our army of nearly four million men, but you also provided for our government the ten billion dollars additional loaned to our allies. I vividly recall the memorable occasion, while the war was raging, when the British Ambassador said to me in Washington that unless the advances which we were making the allies should be kept up their cause would fail, and he solemnly added: "If we go first it will be your turn next." It is interesting to note incidentally that the amount we have loaned the allies is more than three times as great as what we have heretofore regarded as the huge sum which this government raised by the sale of bonds to pay the cost of our Civil War.

I may claim some distinction as one of the few men in this country not equipped with a solution, all worked out and ready, of the world's present and pressing financial, commercial, social and political problems. Perhaps I should be ashamed to confess the deficiency, but truth is mighty. I see now no way out. I acknowledge that as frankly as I feel and say confidently that there is a way out and that the American people will find and follow it.

As has been said, Columbus did not know where he was going nor how to get there, but he went in the general direction indicated by common sense applied to acquired knowledge and found not only safety but a new world.

One basic fact which we may accept as proved and indisputable to begin with is that America must carry and guide the world, a while at least. There is no way out of or around it. We may as well face it here and now, and face the further fact that the American banker must do much of the carrying and guiding. Gentlemen, it is clear as day. Suppose we cut every cable and stopped every ship sailing between here and Europe. It is a fact that Europe does not make or grow anything we must have to live comfortably. We can grow

and manufacture for ourselves practically all we need but coffee and tea, and we could bring those from the Orient and the other Americas, but while we make more cotton and wheat than we can use ourselves we need Europe for a market—an outlet for our surplus. Without it we would have a long period of glutted home markets and low prices and consequent loss of the buying capacity of the people. The primers of political economy and our most primitive knowledge of life tell us that nations, like individual men, are required by laws, which can not be resisted nor evaded, to be interdependent. Every advancement and improvement in means of communication and contact among human beings has widened the operations of these laws and made their mandate more imperative. Attempt to escape or defeat them incurs disaster and ruin to the body politic or the individual as surely as the disassociation of one organ of the human body from the others means death.

St. Paul taught his disciples that long ago, in the parable of the body and its members. We can not and should not be content with mere existence. The human race was not created and society is not organized merely to live. The lowest animals do that. For humanity life without progress and growth must mean decadence and retrogression. We are not given the capacity to stand still. The moral and intellectual life has its laws of gravitation as potent as those of material nature. We know that this invisible force is drawing us downward always and must be resisted by will and movement. A man falls the instant his brain ceases to direct him to balance himself and control his limbs, and he can not long be upright when motionless. It is so with communities and nations. To live we must move and go onward. In doing that we must be in contact and association with others who are living and moving. A nation can no more prosper among the putrid and festering corpses of other nations' dead than a man can be healthy in a charnel house or a banker happy and sound in the wreckage of a ruined community. As we have seen and are seeing and feeling, a sick or dying people give off exhalations which are more deadly and poison the atmosphere more direfully than those of the corpse left by the most frightful disease.

There is no need before an audience like this to elaborate the argument. The case proves itself. The conditions and the facts force conviction too clear to be questioned. The plain demands of self-interest are in precise harmony with the clear call of Christian and human duty. Selfishness and altruism kiss each other. Sagacity and ethics are of one voice. When we go down to the roots we usually find that generosity, like honesty, really is the best policy; but in this instance the conclusion is right before us on the surface and we do not have to dig.

For our own safety we must take on the burden that threatens

the crushing of our neighbors. For our own progress we must pump the breath and blood of life into their commercial lungs and heart, carry those of them that need and should be carried, bear—if we must—the weight of the world. We are the one power strong enough for the task. Our strength gives us responsibility along with opportunity. The necessities of these other peoples appeal, and will continue to appeal, to our good will, to our instinct of self-preservation and to our impulse to go. I am not talking politics or treaties. I am talking business and trying to look at things in the world as you practical men, who so frequently must carry the burdens and meet the emergencies of your own communities, look at them. If American banking as a whole will expand and enlarge its thought and purpose from community to universe, the quick and successful doing of the mighty and magnificent work that is to be done will be assured.

How? I do not know nor pretend to know. Nor do you know. I do know, and you know, that no other nation ever has been in the position in which this nation is today—the one strong, secure, established power of a community of nations stunned, shaken, stricken by a shock and upheaval unprecedented. Therefore no other nation has had thrust upon it a duty so solemn and splendid and an opportunity so dazzling and glorious for great work and great reward, spiritual, moral and material, for the near future and the far future, far beyond our foresight, as we have. I know, and you know, that a very large share, probably the largest share, of the burden, duty and responsibility that are and will be on the United States will be on the bankers of the United States, the men representing so much of the intellectual power, the money power and, in the final analysis, the political and social power of this most powerful of the peoples of the earth.

All of you, within the scope of your own activities, have been confronted with problems to which you could see no solutions—with intricacies and balancings of good and bad, probabilities, possibilities, chances one way and the other, which baffled your thought. You have been compelled to feel your way from day to day, from point to point, from one indication or condition to another.

So Columbus sailed the seas to an objective unknown but believed in and found to be there. Whatever may be the exceptions of individuals or within individual experiences, generally you have been splendidly successful. The statistics of my office and the prosperity and solidity of your institutions and of the country prove your success. They prove, too, that you have been guided by certain fixed principles and known rules.

We are to bear our burden and carry it through uncharted, changing and vast regions. That is exactly what Americans do best and what the real American man exults in doing. It is our favorite game. Any drunken fool of a sailor can scull a boat across a smooth harbor

between buoys and in broad day. A blind horse can trot on a straight and level road. A man without the sense and knowledge to watch the stars and the sun and to provide himself with a compass walks in a circle in desert or wilderness because one foot steps further than the other. You men have brains and courage and propelling power. These things were given you for the express purpose of doing things that never have been done, for going ahead on paths that never have been trodden, for pressing on, like Columbus again, where there are no buoys or lighthouses or landmarks. We have that lesson from the time of Ulysses, who also sailed uncharted seas. We have it driven home to us by our own immediate ancestry. The men who made the government did a new thing that nobody ever had done. From chaos and doubt and darkness they built our Constitution, declared by Mr. Gladstone, after a century of test, to be the sum and essence of human wisdom and foresight.

Many of you come from the West. That magnificent country, the world's strength and our nation's strength this day, was found and made by men who had no guidance but their own brains and courage and death-defying purpose to go on and to do. Where brains—the brains you have—come in is when forty roads open, to take the right one. That is what you are for. Too many of you don't realize it. You don't understand that God Almighty has entrusted you with mind and power and courage to find and follow the ways, as He has endowed this country of ours with the strength to carry any load.

Ulysses was called by the sirens and found how to resist them, and he also steered safely between Scylla and Charybdis. The old fairy story has it that the hero on the right road to the mountain crest was assailed by voices telling him he was wrong and warning him of horrors ahead. He pressed upward. Fantastic as the tale is, it has its lesson. The same brains that find for you the right safe way in your local labyrinths will pick for the country the right road from the forty. The great majority of you have as much sense and as much nerve as Columbus, as the farmers and storekeepers and lawyers who built the Constitution, as the pioneers who found and opened and made the west. History seems to demonstrate that the people who landed in Jamestown and on Plymouth Rock and organized and established America had not as much ability, experience or drive as the men to whom I am talking this minute. I say to you frankly my own belief is that the bankers of this country, many of them elderly or old men, who have won their way to eminence and power by labor and courage and the supreme courage of self-sacrifice, have in them exactly the spirit that stirred our younger men on the battlefields of France as the words "let's go" came down the lines. Those boys of ours went at the word. They went into darkness, to bloody mud, to unknown and ghastly trenches and wire entanglements. But they

went. And they won. Most of us could not go. Now is the time for us to do. From our secure homes we backed the boys at the front. Now is the time for us to back them by making secure the victories they won and by carrying to completion the ultimate purposes for which they went and fought and died—the betterment, freedom and elevation of humanity.

We do not have to walk in circles in the wilderness. We have some sure compasses and unfailing and fixed stars by which to guide. In business, as in astronomy, we have established and permanent points and places in the firmament. The law is clear. Above the statute law is the law of righteousness and fairness. With it is the compass of experience. With these we must tread cautiously, adapting our forward footsteps, as our ancestors before us did, to the lay of the land and the circumstances. We may help Europe best around by way of the Americas, stimulating production of some things and demand for others. We may help through Russia, a country of enormous possibilities and vast varieties of population, terrain, climate and potential absorption and production. The way for us may lie through the Orient; through people closely akin to us or those separated from us widely by differences in language and tradition. We can not tell yet. We can tell no more at this moment how nor what we must do than could the fathers who stepped upon the edge of an illimitable and forest-covered continent held by a strange race who might be friends or foes. We know we must do, we must go on for the world and for humanity, for our own safety and prosperity. Circumstance has thrown us on a new and storm-beaten shore with the goods on our backs and the responsibility upon us, and we must go and do.

Ninety-eight years ago Europe was considering us as we now consider Europe. Of course the situation was on a small scale as compared with the present, but areas, populations and capital then were small as compared with now. We owed Europe \$32,000,000 and had no way to pay it. Balances of trade were hopelessly against us. Not only our national and state bonds, but our real estate mortgages and even sheriff's warrants were held abroad to secure our indebtedness to the banks, merchants and exporters of England and France.

In 1821 the Ways and Means Committee of the House, in its formal report, quoted approvingly by the then Secretary of the Treasury of the United States, gave this brief dismal summary of the situation:

"Few examples have occurred of distress so general and severe as that which has been exhibited in the United States."

All students of the conditions of the time seemed to agree that the nation was poorer in 1820 than it had been in 1790, thirty years before. Explanations of the causes of disaster also accorded substantially. We had been doing then voluntarily what Europe has been forced to do. We had bought more than we sold. After we had made

peace with Great Britain in 1814 the internal wars of Europe continued. Prices soared. Everything we were making could be sold abroad and at great profits. A brief period of frantic extravagance resulted. Gentlemen, the reports and comments of that time, nearly a century ago, read almost like a history of the last two years. There was this difference: The American people of then developed a madness for buying foreign and expensive goods. Our imports of sugar, molasses, rum and coffee were enormous for the population. Then came peace in Europe, increased production there and decreased demand for our products. I shall dwell on this a little because we may, in a measure, judge of prospects in Europe and of our own outlook from developments of that former period of trial and distress. Our national income in 1817 was \$24,000,000. In 1818 it rose to \$26,000,000. In 1819 it dropped to \$21,000,000; in 1820 to \$20,000,000. There was a deficit of \$6,000,000 for the ordinary expenses of the government. On January 1, 1821, the actual money in the Treasury was \$476,831. "From which," said the Secretary of the Treasury to the Ways and Means Committee, "must be deducted the amount of the deposits in the Bank of Vincennes, which it cannot pay, \$214,808." That was a brief blunt statement of an unpleasant fact—half the cash assets of the United States Government in a broken bank. Certainly the statesmen and financiers of that moment had not a cheerful situation. The estimated income for 1821 was \$16,000,000. With a population of nine and three-quarter millions and wealth of three and a half billion dollars, the United States gave little promise of becoming, before a century should pass, the Atlas able to bear on its shoulders the weight of the world. Yet we have attained to that statue and strength in less than 100 years, in which time we have fought three foreign wars and a civil war. The figures, the facts and the measurement of time make a story almost inconceivable and unbelievable.

The public debt of the United States in 1821 was \$93,000,000, carrying interest at 5, 6 and 7 per cent., the most of it the last two figures. Reports to Congress said that while the population had increased one-third from 1790 and crops were abundant, wealth actually had diminished. The currency in circulation had been reduced from \$110,000,000 to \$45,000,000, or about \$4.75 per capita, because there was no business to employ it. Congress debated at length a proposal to forbid the banks from issuing notes of less than \$5 so that the metal currency would be forced into circulation. Such of it as had not been sent abroad was being hoarded. Official reports said that Europe had taken to secure our indebtedness "bank stock, public stock, book debts, notes, bonds, judgments and bankruptcies"—everything that could be utilized to represent value or security. The national debt per capita was \$9.44. These figures seem trivial to us now, with national wealth estimated at 250 billion dollars, but they are useful for comparison.

In nine years the per capita debt of the United States was reduced from \$10 in 1821 to \$3.77 in 1830 and our debt to Europe had been wiped out. The young giant Republic had begun to feel and use and know its power.

Gentlemen, if we could pay Europe then and clear up our debts Europe can pay what she now owes us. In the twenty years between 1820 and 1840 we reduced our national debt from \$10 per capita to 21 cents per capita—the lowest of our history as a people. Yet we have pessimists who tell us we will not be able to pay our present debt in a century. What the people of ninety-eight, ninety and eighty-five years ago did, with the comparatively crude and scanty means at their disposal we can far more than do now, although our debt is vastly more per capita than theirs was. We have a banking and currency system apparently as near perfect as human thought can devise. The Americans of the early part of the last century were feeling their way with experiments, many of which proved disastrous, working with financial and economic machinery which rarely worked well and frequently broke down. The land was bewildered and frightened with croaking voices of evil prophecy and discordant howls of revolution, disorder and ruin. In the larger American cities, according to the intimate chronicles of the times, the misery was like that which has prevailed in recent months in some of the European cities—multitudes of idle men depending on charity for food and ripe for mischief and plenty of busy agitators and mischief-makers to urge them on to destroy and ravage.

Gentlemen, there were Americans then who never lost their heads or their faith. There were men of affairs who kept steady eyes through the driving mists and howling storms on the future and the facts. There were masses of the people, scattered as the people were and isolated as many of them were, who kept manfully to their labor, each man doing his own part as best he could, who thought soberly and bent their minds to construction rather than to destruction. Exports of wheat and corn had fallen almost to nothing. The farmers of the South went to the rescue with cotton. They furnished practically one-half our total exports in that trying year of 1821-22. They increased their production of the one thing we had that Europe was compelled to buy of us, aided tremendously by the cotton gin, just then being accepted for general use. While mobs shrieked about the streets and demagogues beset the public ear with vague demands for vengeance and upheaval the farmers of New York and other Eastern States were working plans to increase their output of flax and wool that we might have more to sell, and business men and real statesmen with foresight calmly but energetically pushed forward the Erie Canal, the building of steamboats to develop water traffic and the establishment of manufactures to decrease the drain in our resources.

We have Americans of those same kinds and calibres and impulses and purposes. We have better tools with which to work. In the eighteen-twenties we were a feeble folk, regarded as more or less of an unsubstantial freak of a nation and in some respects appearing to deserve the estimation. We are not Chinese or ancestor worshippers and may as well frankly face the fact that there were just as many fools, quacks and chronic soreheads in proportion to population as we have now. If these could be eliminated there really would be little opportunity for the actually great, strong and clear-thinking men and little credit for them.

The sound men of the twenties—the sound men of all classes—won against them and over them and deserve all the more honor and reverence because of their victory over the inevitable human obstacles and nuisances.

So will the sound and real man, the balanced and 100-per-cent.-American business man, thinker and voter, win now. We are a strong folk—the strongest of all. Nobody considers us with contempt or tolerance or views us dubiously as a freak institution. We are established. The eyes of the nations turn to us for guidance and their hands are held out to us for aid. We owe twenty-five times as much per capita as the people of the twenties in this country in the last century owed, but we are a thousand times stronger than they were in equipment, in standing, in credit and power.

Our own task for ourselves is simple. If we chose to adopt short-sighted and craven policies we could extinguish our own huge net debt comparatively quickly and, I may say, easily. But no really broad-minded and forward-looking business man devours his debtors; that is a crime against commercial ethics, maxims and principles as serious and destructive as defrauding creditors. As a matter of wise management, of self-protection and provision for the future we must take on our mighty shoulders so much of the world's burden as may be necessary for us to carry. As no man can continue to thrive in a community of paupers, so no country or people can continue to prosper and grow in a ruined world. We are the biggest thing in the world and we owe the biggest duty and must brace ourselves to do the biggest part in the work of restoration, of the re-establishment of confidence and hope and in the renewal of prosperity and activity.

This is no new thought for me. It is no new thought for you. I am quite sure I am but putting into words, after a fashion, the ideas and conclusions you men have in your minds. Excuse me for saying that three years ago at Kansas City, when I last had the honor of addressing you, I undertook to outline and forecast just the situation we have now. Because I said there and then precisely what I wish to say here and what is *verified* I take the liberty of quoting two paragraphs of my statement to you at that time:



"We have been born into the world almost in a moment, full grown—I hope and believe with teeth. We are not only a world power. We are the world power. While nearly every other country has been depleted we have been augmented. \* \* \* No nation in the world's history has had the opportunity this country of ours will have at the ending of the European war for self-building and for raising to their feet a sad procession of exhausted nations."

Europe owes us now as we owed Europe ninety-eight years ago. Europe's debt to us is less in proportion than ours was to Europe. The cases and conditions are not parallel throughout.

This was a new country, with new resources and sources of wealth constantly developing, a fast-growing population and a boundless territory to be developed, but by usual commercial rules we were more insolvent than Europe is today.

We have endured subsequent financial and industrial disturbances and periods of distress and consequent disorder. Authority so respectable and persuasive as James G. Blaine contended that the great panic of 1837 was due to some of the same causes that brought the crisis of 1821; that again a period of war in Europe had given us great prosperity, and peace there made a sudden check to our foreign commerce, resulting in the crash. Opinions of very eminent men on the subject differ, however. Political economists have been disputing for eighty-odd years over the whereabouts of the fault for the disaster. Some practical thinkers believe that the panic of 1837, like the panics of 1857, 1873 and 1907, were natural reactions from times of vast activities, swift development and overcrowding of business on financial systems intrinsically weak and defective. These say that the apparent direct causes were merely provocations—incidents—like the finger push on a boulder resting insecurely and balanced on a thin edge. In none of these, however, was the element of heavy and increasing balance of trade against us and heavy indebtedness abroad which in 1821 made our situation so vividly resemble that of Europe now. We have public men who more than broadly hint that a panic now would be the quickest and surest cure of our maladies and solution of our difficulties. Their theory is that a convulsion something like that which frees an overloaded stomach would bring us to normal functioning of our commercial, financial, social and political systems, the four being parts of the one body. There have been cynical philosophers who contended that war, pestilence and famine were nature's remedies against the overloading of the earth with humanity and the overdevelopment of human capacities and energies. That is precisely in line with the doctor who gave his patient something to cause fits, explaining that he knew nothing about other diseases but that he was at home with fits and if he could start them would know precisely what to do. War, pestilence, famine and

panics may have been natural results of conditions of the past and may have left the *survivors* to enjoy life, but the intelligence of man has outgrown reliance on such fearful remedies—is fast outgrowing acceptance of them as unavoidable. We are getting away from them as we may have gotten away from dependence on herb and root doctors, from treating typhoid with incantations and regarding yellow fever as an inevitable part of the summer in Southern ports. The doctors now devote most of their study and apply most of their science to preventive treatment.

No business man of today regards a convulsion as the essential preliminary to health, or ruin as necessary for recovery. Every alert and sagacious American business man is giving his attention to checking disease, to preventing its development, to stimulating and directing the natural vitality and strength of our country to throw off the germs, to heal the tissue where it is infected, to regain full health and vigor.

The same forces, elements, quantities and powers that have fitted this country to be the Atlas, the mighty burden bearer, for the world will keep it fit and enable it to perform triumphantly the most stupendous and magnificent and magnificently honorable task ever put upon a people. We have among us the steady, foreseeing eyes, the dauntless hearts, the clear vision, the energy undismayed, the ambitions and aspirations scorning opposing circumstances and trampling obstacles, the invincible common sense and the quiet patriotism that is part of the marrow of the bones and the core of the heart among the great unheaving but resistless masses of the people. These have brought us from weakness to unprecedented greatness. They have led us and impelled us through every test and trial and danger that could beset a nation. If any of us ever were inclined to fear decadence or to doubt the future, surely the crowding swiftly succeeding events of the thirty months since April, 1917, have given us full assurance. We were asked to do what no nation or government ever had been asked to do. We did it. We are asked now to do what no nation or government ever has been called upon to do. Gentlemen, we will do it.

Probably we will do it with ease and swiftness that will astonish our most enthusiastic optimists. In 1821 some of the clearest minds at Washington could see no light ahead. Secretary of the Treasury Crawford's reports were saturated with gloom, and he combined the qualities of statesman and politician, and, although forgotten now, narrowly missed the presidency. Yet in 1822 the clouds were lifting; by 1825 the country was in the broad light of prosperity and by 1830 the weight of debt was trivial and our obligations to Europe had been cancelled.

I hesitate, gentlemen, to talk shop to you or to burden you with

figures at this time, but I know of no other way by which it is possible for me to express to you so vividly your splendid accomplishments, and I might also add the magnificent growth and achievements of our national banking system in a period, the most critical and important in the history of our race. Without the prompt, the resourceful and self-sacrificing aid which was given by the bankers of this country from that fateful day in April, 1917, when we declared war, until after the signing of the armistice on November 11 last, our victory would have been impossible.

In the summer of 1914 at the time of the outbreak of the European war, the total banking power of the United States, including capital, surplus, profits, deposits and circulation of all the national banks, state banks and trust companies of the country was less than twenty-five billion dollars, and the total money of all kinds, including gold and silver coin and certificates, legal tender notes, national bank notes and subsidiary currency in all of our 26,765 reporting banks, was only \$1,639,000,000, of which the national banks held \$1,023,000,000 and the state banks and trust companies about \$616,000,000. At that time we owed to the European countries on demand and short-term credits and bank balances nearly four hundred million dollars, and the American securities held abroad, which the European countries were frantically endeavoring to sell back to us, amounted, it is estimated, to four or four and one-half billion dollars in addition. Suppose someone had announced at that time that before the war could be won it would be necessary for this country to come in with all its might and to provide after its declaration of war the colossal sum of more than 32 billion dollars in the space of about two years, of which over seven billion dollars must come from taxes and twenty-five billion dollars—an amount greater than the total banking power of the country—must be subscribed for Government bonds and certificates. Such a prediction and such a task would have been regarded as inconceivable and beyond belief, but, gentlemen, that is precisely what our country has done, and in doing it we have saved civilization.

Although the resources of our national banks are somewhat less than the resources of the state banks, trust companies and savings banks of the country, the records show that a majority of all the Liberty bonds were placed through the instrumentality of your national bankers.

Official figures illustrate the growth and progress of the national banks in the past five-year period from July, 1914, to July, 1919. On June 30, 1914, the total resources of all the national banks were \$11,482,000,000. On June 30, 1919, their resources were \$20,799,000,000, an increase of \$9,317,000,000.

The increase which has taken place in these past five years has been greater than the increase for the nearly forty-year period from

1880 to the present. The records also show that while there has been an enormous increase in resources of all banks of all kinds, the national banks of the country for this period have increased more rapidly than the banking institutions under state supervision. The increase in resources of all national banks from June, 1914, to June, 1919, was 81.14 per cent.; the increase in the resources of the state banks, savings banks and trust companies for the same period was about 69 per cent. It is also gratifying to me to be able to point to the record which shows that the admirably efficient work which the national banks of the country have been performing has not been without its reward, but that the increase in the profits of the national banks, both gross and net, has been unprecedented.

From June, 1914, to June, 1915, the gross earnings of the national banks of the country were \$527,985,000; for the calendar year 1918 your earnings were \$856,549,000—an increase of over 60 per cent. in five years.

From June, 1914, to June, 1915, net earnings of all national banks amounted to \$127,053,000. The following fiscal year, 1916, they were \$157,544,000, the next year, 1917, \$194,321,000; for the fiscal year 1918, net earnings were \$212,332,000, and for the calendar year 1918 they were \$223,531,000, which is more than 20 per cent. per annum on the total capital stock of all the national banks.

These returns have been obtained coincidently with the lowest average interest rates throughout the entire country that we ever had. This reduction in interest rates is due to the admirable operations of the Federal reserve system and to the insistence by the Comptroller's Office that the laws of the country regulating the rates of interest shall be observed by the banks, and it has been exceedingly encouraging to me to receive the assurances which have come from so many different sources that the adherence of the banks to the legal rates of interest has not only proved of enormous benefit to the public and the customers of the banks, but that the banks themselves are making more money and doing a larger and more satisfactory business than they did with interest rates regulated only by what the traffic was supposed to be able to bear, but which sometimes proved crushing. It will probably interest you to know that the records tell us that the national banks of the country are today manned by an army of approximately 100,000 men and women and that the owners of your banks—your stockholders, men and women—number approximately 500,000 souls, who have entrusted to you the stewardship of their talents. The returns prove that you have by no means wrapped these talents in a napkin or hidden them in the earth. The average of 20 per cent. per annum on capital stock will vindicate you from any such suggestion.

It is particularly gratifying to me to be able to point to your very

excellent record in reducing, as you are doing by wise, safe and honest management, the number of national bank failures to almost the vanishing point. From February, 1914, to February, 1918, there was a total of forty-four national banks which were placed in the hands of receivers. Of these banks ten were restored to solvency and nineteen additional banks have paid depositors in full or expect to do so, leaving but fifteen of the banks failing in those four years from which depositors are likely to suffer loss.

It is with special pride that I offer you my warm congratulations upon the admirable record which you have made in the matter of exemption from bank failures for the past twenty months, from January 1, 1918, to September 1, 1919. During this entire period but two small national banks have failed and been placed in receivers' hands, and one of these has already arranged to pay its depositors 100 cents on the dollar. This means an average of one failure each ten months, against an average of one failure in about every twenty days in the entire twenty-five-year period preceding this administration. This extraordinary record covers the period of the greatest trial the world has ever seen, including ten months of the shock of war and ten months of the strain of reconstruction, and I ask you to note the deeply significant and eloquent fact that the records show the average number of national bank receiverships per annum per thousand operated banks for the twenty-five years prior to 1914 was twenty times, or 2,000 per cent., greater than the average number of such failures per thousand banks for the critical period which has elapsed since January 1, 1918.

Not only have there been fewer national bank failures than ever before in the history of the national banking system, but the records show that of the national banks which have failed during this administration approximately 60 per cent. have been restored to solvency or have paid their depositors 100 cents on the dollar or are expected to do so, whereas in the nearly fifty years prior only about 35 per cent. of the failed banks were restored to solvency or paid depositors in full.

In the period from January 1, 1914, to September 15, 1919, charters have been granted to 984 new national banks, including 420 state banks and trust companies converting into or reorganizing as national banks. Of the national banks which went into liquidation during this period 365 were to enter the state bank system. In the same period 914 national banks have increased their capital and only 72 have reduced it. The total net increase in capital, surplus and profits of the national banks at this time, as compared with June 30, 1914, is more than \$300,000,000.

In conclusion let me assure you again, gentlemen, that what America did in 1822 she can do now and Europe can do now. As our country

recovered from an adverse trade balance and debts owed abroad reaching into the most intimate internals of her business life, she can help Europe do, now that the case is reversed. We are entitled to a kind of jingoism of prosperity, peace and restoration; we have the brains; we have the balance; we have the courage and nerve and drive and faith. We have the deep ingrained, ground-into-the-soul, love of country, Constitution and institutions. We have the wealth; we have the inventive genius undiminished, the patriotism untarnished, the will to go and the power to do. Ask the Hun. He knows. Our young men taught him in France and Flanders and our older men, our women and the great body of the people showed him here. He knows. We know, and our confidence that we can do whatever we may be given to do can not be shaken nor be made to falter.

With the guidance and favor of the Almighty the honest and faithful American banker and business man has been the directing power of the nation. He has been the unbreakable rear guard in times of disaster and retrogression, the eager and trusty leader of the vanguard in advance and progression. In those olden times to which I have referred, in the wildest days of wildcat banking and business methods, there were conservative, substantial banks and institutions which amid all the turmoil and peril stood like rocks. That history and tradition are yours. You inherit them. They are written indelibly and no shrieks against capitalism, no shrill howling against bankers and enterprise, can blot them out or dim them. They stand to attest how honorable your avocation is, the vital and incalculable service it has done in preserving this republic and making it foremost among all countries and the hope and mainstay of the nations.

It is your lot—and when I say “your” I mean all American bankers in and out of the national system—to lead now in the huge work of upholding, guiding, restoring. The world is your field of operations. The nations are your clients. Your prospects of extension are illimitable. Your opportunity for widening the regions of your country's activities, for increasing its wealth and power are boundless. No other community of bankers ever has had such work to do—such opportunity to use. Never before has it been given to any body of men with such abundant means at their hands to secure in peace with energy and intellect the endless blessings conquered for humanity by valor and skill in war and to win for their own country not only riches and growth, but, far better, security and glory which will be everlasting because founded on world-wide gratitude well earned. You can do it. You will do it. You have given your proofs as the men at the front gave theirs. You will no more know how to fail than they did.

**MR. W. A. BLAIR** (Winston-Salem, N. C.): I rise, sir, to move that the National Bank Section of the American Bankers Association extend to the Comptroller of the Currency its hearty thanks for the very interesting, timely and inspiring address to which we have just listened.

Unanimously carried.

**PRESIDENT SANDS:** We will now have a report of the Committee on Secret Assignment of Accounts, by Mr. N. P. Gatling.

### COMMITTEE ON SECRET ASSIGNMENT OF ACCOUNTS

**N. P. GATLING, Chairman**

Immediately after my appointment as Chairman of this Committee, a letter was framed covering the subject, which was approved by each member of the committee as well as by Judge Thomas B. Paton, General Counsel of the American Bankers Association. Over four thousand of these letters were sent out to a restricted list of national and state bankers, and about two hundred replies were received, 90 per cent. of which expressed hearty approval of the efforts being made by this Section to discourage business transactions with such institutions as made a practice of the secret assignment of their accounts.

About 10 per cent. of the replies received were from bankers who took the position that some of their best customers were among the type of commercial bankers which the committee sought to discourage, and there were also a number of replies received, criticizing the American Bankers Association for frowning upon this character of business and yet encouraging in every possible way the business of trade acceptances, claiming from the standpoint of the writer that there appeared to be little difference.

After the receipt of the replies to our communications a meeting was arranged, composed of our Secretary, Mr. Hyde, Judge Paton, and Mr. J. H. Tregoe, president of the Association of Credit Men, and we discussed the situation, endeavoring to decide upon what line to continue our work. The gentlemen mentioned are not members of the committee but are so intimately associated with the work in hand that it was felt an exchange of views with them would be very helpful.

As a result of this conference it was decided that Judge Paton would draw up a letter, which would form a reply to the 10 per cent.

of the disgruntled element above referred to, and also to be used as the next form of communication to bankers on the subject.

The deeper this proposition is analyzed, the more difficult appears the possibility of doing effective work, for the reason it seems that some of the most influential bankers in the American Bankers Association are cultivating the very class of business which this Association is attacking, and information comes to our committee that in our large cities, New York, Philadelphia and Baltimore, a number of the important banks are unwilling to come out in the open against the practice which this committee is endeavoring to suppress.

The committee has endeavored to secure the approval of our course in this work of the Comptroller of the Currency, but he has not replied to our letter on the subject, and although your Chairman recently saw him personally and reminded him of the letter he expressed surprise that no reply had been received and the impression is given your Chairman that he, too, is side-stepping the subject.

Your committee is of the opinion that the matter should be brought up direct to the Federal Reserve Board, and we hope that at this conference a plan will be adopted by which the subject may be presented to that body through some influential method.

The work of the committee has been such that your Chairman has been able to transact the necessary business without requiring the personal presence of the other members of the committee, each of whom, however, has been kept advised of the work in hand and has expressed his acquiescence in all that has been attempted.

The foregoing report was made to the Executive Committee at the meeting in May, and to which we now add as follows:

As Chairman of your Committee on the Secret Assignment of Accounts, I can add little to the report made to this committee at White Sulphur Springs on May 16th last.

As indicated in that report the national banks of the country have been advised of the effort of this committee to bring about a co-operation between all of our national banks in dealing with the subject under discussion. Letters have been received from hundreds of national banks throughout the country indicating cheerful co-operation, but practically all of such replies are from institutions which are never called upon, or never will be perhaps, to participate in the objectionable character of banking which we are dealing with.

On the other hand communications have been received from some of the banks who have encouraged this class of business and are still encouraging it, and their attitude on the subject appears to be such, that your committee sees no reason to hope that they can be persuaded to give up the practice under criticism.

In the judgment of your committee a number of national banks of Baltimore are either lending money direct to customers upon the



secret assignment of accounts, or else they are discontinuing the paper and in other ways lending their credit facilities to the commercial companies who hold the secret assigned accounts as sub-collateral. We think too, that a number of our large national banks in Philadelphia and New York have substantial depositors whose business they fear to lose and would probably have to give up if they joined in the efforts of the National Bank Section to abolish the practice of the secret assignment of accounts.

Your committee has given the matter much thought and cannot escape the conclusion that the only effective recourse which we can employ in combating the evil referred to, is to gain the co-operation of the Federal Reserve Board, the Comptroller of the Currency, or both. The manner of presenting this matter to the Federal Reserve Board or the Comptroller of the Currency is a subject for the discussion of the Executive Committee of the National Bank Section, and it appears to your committee that now with the headquarters of the Section located in Washington, we should be able to present the matter in a convincing and definite manner to the Federal authorities, and secure their co-operation or else ascertain whether or not the subject is one which they feel justified in supporting.

I desire to offer in connection with these reports the following resolution:

*"Whereas, The practice of assigning accounts by merchants and manufacturers to corporations as a basis for loans without notice is becoming quite a general practice; and*

*"Whereas, The commercial banks believe that this practice is a dangerous one and seriously affects the integrity of commercial paper; therefore be it*

*"Resolved, That the Executive Committee of the National Bank Section is hereby requested to take this subject up with the Comptroller of the Currency and the Federal Reserve Board with a view of securing their assistance in preventing as far as possible the continuance of this method of procuring credit."*

(The report of the Committee was ordered received and filed.)

PRESIDENT SANDS: This resolution relates to the assigning of accounts receivable by secret transfers, and we recommend to our members that they refuse to grant credit to concerns that engage in such practices. Gentlemen, shall the resolution be referred to the Resolutions Committee?

MR. WALDO NEWCOMER: I don't see how we are going to know when a man has made a secret assignment.

MR. GATLING: All the answers necessary to be made are

made by the borrower, and in them he states that he does not sell his accounts receivable. Of course the evil creeps in a short while after he has made such a statement. Say on the first of July he makes a sworn statement that he has not sold his accounts receivable, but then on the 10th of July has sold them.

**MR. NEWCOMER:** Suppose that he says: "I do sell my accounts," then it is no longer a secret assignment.

**PRESIDENT SANDS:** The practice is one that every good banker should discourage, and it is a matter that has been given a good deal of attention. The very underlying basis of all credits in this country now is commercial paper. A great many companies have been established in this country and advertise in the papers urging merchants to assign accounts, and they charge a very heavy rate of interest and have invested a tremendous amount of money. One company makes the bold statement that they loaned thirty million dollars last year on this character of business. Now I have no doubt that the company is solvent because commercial credit companies have the surety companies guarantee the integrity of the merchant who assigns the paper to them, and a great many of us have been guilty of discounting their paper and it would perhaps be improper for us to say that it should not be discounted, but I thought I should bring to your attention the facts in the case and ask your aid in doing everything in your power to improve and keep clean the commercial paper of this country. Bankers whom I know have had losses on account of customers having assigned their accounts, and losses are sure to come to us, because we base our credit on bills receivable and the stock on hand held by the merchant, and in this way a certain class of this security is destroyed by giving preference. I hope some means will be devised by which the Federal Reserve Board can co-operate with us and reduce to a minimum this character of business. To my mind this is one of the most vicious practices that has sprung up in our system and I think it is the duty of every banker to discourage it.

**MR. NEWCOMER:** I don't think the resolution on the face of it is practical. If the merchant tells you that he is doing it

there is no longer a secret assignment and if he tells you he is not doing it and then does do it later you can not find it out until it is too late. Now about the bank refusing to deal with the commercial credit companies, if we do not deal with them they will take the business to some other bank and we would lose the account. I am thoroughly in accord with the proposition that it be put up to the Federal Reserve Board and if possible have a law passed prohibiting it, but I don't think the particular method stated would be practicable.

**PRESIDENT SANDS:** Will you suggest a change, Mr. Newcomer?

**MR. NEWCOMER:** To take it up with the Federal Reserve Board and have a law passed prohibiting it.

**PRESIDENT SANDS:** I ask unanimous consent of this body to refer this report to the Resolutions Committee. If there are no objections it will take that course.

**MR. HINSCH:** I can speak freely on this subject because it has cost me a good deal of money. We had some directors in a class of business—I won't mention it now. I spoke to the men about it and I received some letters indicating that this firm had not settled for some goods, and on investigation I was told that the goods were not standard and that they were going to adjust the matter. That ran along for quite a while and finally this man died very suddenly, and it developed that he got into the hands of one of these companies. He borrowed something like \$80,000 from them and they squeezed him to death commercially and he committed suicide. He was my personal friend and I would have believed him and still he fell into the hands of these men and he fooled them, because it was found that the accounts he had assigned to them were absolutely worthless.

**PRESIDENT SANDS:** Are there any other remarks? If not, we will have the report of the Committee on State Taxation of National Banks. Mr. J. Elwood Cox, Chairman.

## REPORT OF COMMITTEE ON STATE TAXATION OF NATIONAL BANKS

J. ELWOOD COX, Chairman

The longer your special Committee on State Taxation of National Banks studies the subject the more it is impressed with the importance thereof. States are jealous of their rights as commonwealths; the Federal authorities feel it incumbent on them to maintain the supremacy of the nation over its units. To reconcile differences and bring about a state of affairs which will insure justice to all will require time, labor, patience and mutual conciliation.

It is assumed that every class of business, including banking, is willing to bear its share of the public burden. In some of the states bank stock is looked upon by local assessors and by the legislators as "good picking," and statutes deal heavily with the owners of the property, while in other states the bankers are satisfied that the taxes they pay are not disproportionate or excessive. Where bankers and holders of bank shares are by law forced to pay more than their proportion of taxes the revolt seeks to carry legislation to the other extreme, and individual bankers and associations of owners of bank shares endeavor to determine a basis of taxation which will not alone relieve them of the present excess but will give them advantages which will partially compensate for undue and unwarranted payments heretofore. There is danger that radical demands for relief on the part of bankers will defeat their worthy purpose. Banks ever have been regarded by tax assessors as legitimate objects of assault and if bank share owners in their efforts to escape injustice through Federal legislation, proceed beyond proper bounds, the state law makers will discover means to offset their gains and even make extortionate exactions which will intensify instead of relieve the situation. Therefore it behooves national bankers to give thoughtful consideration to this subject, to proceed not hastily but with care and circumspection and always to keep in view the arrival at a perfect balance by which none shall be dissatisfied and all will have consciousness that they are doing their full share, and no more, in maintaining government and stabilizing our national ideals and institutions.

As this committee reported to the Executive Committee at the White Sulphur Springs meeting, we have carefully watched legislation, both state and national, and nowhere do we find a disposition to make radical changes in existing statutes relating to taxation as affecting national banking institutions, and we are confident that the watchfulness of legislative committees of both the American Bankers Association and of the bankers associations of the several states should be in generous measure credited with the defeat of "strikes" movements

against the business of banking. It always is better to head off hostile attacks in their incipency rather than to wait until the movement has gained dangerous momentum. As said in our mid-year report: "In states where laws now in effect levy upon banks unjustly, the bankers through associated effort should protest with a vigor that will compel readjustment on an equitable basis; not only protect but take affirmative, positive action in the truly American way of political activity, beginning with the primary and continuing until the legislature has adjourned; opposing candidates for office who are unenlightened and unqualified for the task of law making, and those who have not given proof of character and ability. As bankers we have ourselves to blame if we permit the perpetuation or the continuance of abuses. The conservatism attached to our class of business and our disinclination to make our influence felt outside the walls of our banking houses are in part responsible for the election of law makers who are not fitted to meet the requirements of such exalted station.

"Warning should be taken of a situation that has some alarming phases. As one effect of the Great War, extravagance on the part of governing bodies, from Federal down, has run rife. It is ever a difficult thing to reduce expenditures; the tendency to raid the public crib is proverbial. To continue to spend on a war basis means increased taxation and the drift will be inevitably along the lines of least resistance. Other interests are awake and are not too proud to fight for their rights. Bankers cannot hold aloof from politics and yet expect to be treated with justice by legislators elected without their aid. We contend that to be a politician to the extent of active participation in the selection and election of men of integrity and ability to public office is the blessed birthright of an American, and to do less is to confess ourselves unworthy our glorious heritage."

We renew our expression of opinion that the matter of the state taxation of national banks is one that properly should be assigned to the State Vice-Presidents of the Section. They could by conference and correspondence arrive at a country-wide understanding as to what constitutes fair and equitable treatment of national banks, and each in his own state urge upon the legislature the conclusions that had been reached. All or nearly all the state bankers' associations have legislative committees.

The matter of the taxation of bank shares is one which affects all classes of chartered banks, and the several states of the country are governed largely in their policy in respect to taxation by the Federal statutes which fix the basis for the taxation of the shares of national banks by the states. It is therefore quite evident that this important question is one in which we can all co-operate, and for that reason this committee strongly urges the appointment of taxation committees in each of the sections of the American Bankers Association and in each

of the state bankers' associations; and that these committees should all cooperate to the end of securing such reasonable amendments to the Federal laws as will fix a maximum rate at which money invested in bank shares can be taxed.

The present Act known as Section 5219 U. S. R. S. has been so confused by the many conflicting United States Court decisions during the past fifty years that it should be amended or re-enacted so as to prevent the states from taxing the shares of national banks upon a basis higher than other invested capital in the state. This will prevent discrimination and that is all that the investors of bank shares can hope to secure. Our belief and experience is that the holders of bank shares are among our most loyal citizens and they do not expect any discrimination favorable to them; they are willing and anxious to pay their full share of local, state and national taxation and should not be asked to pay more.

On careful analysis the investment in bank shares is no more profitable than that in any other corporation and when the double liability is considered and the fact that banks enjoy no special privilege, all citizens being privileged to organize banks, there is no reason why there should be any discrimination against the shares of banks.

The banks themselves are in no small degree responsible for the fact that they are discriminated against in taxation. There is too much unrestrained, intemperate advertising of the kind calculated to cause the public to feel that banks possess a sinecure and are prosperous beyond the bounds of fairness or public safety. Statements are often published showing a large percentage of capital stock issued to shareholders from earnings and not infrequently there are published statements showing large percentage earned on capital stock, without making any reference to surplus and undivided profits, the true source of the earnings, accumulated by denying shareholders reasonable dividends, and during a long period of years, extending back into the days when the possibilities to earn profits cannot be compared with present opportunities curtailed by legislation, keen competition, and economic conditions far different. If bankers would tell the whole truth when they make such boastful statements, they would shield the public from the error of false opinion, and establish themselves on a more ethical and practical basis of relations with the public and competitors.

The national banks of this country earn approximately 8 per cent. on the true value of their shares. Accordingly a bank with shares worth \$200,000 and deposits of \$1,000,000 earns about \$16,000 per annum net. If the management of the bank is charged by its shareholders interest on the value of the shares at the current rate charged by the bank, say 6 per cent., it is patent that the shareholders contribute \$12,000 to the earnings by virtue of their investment, which

leaves \$4,000 earnings only produced by \$1,000,000 of deposits. If the bankers themselves appreciate these facts, and would give them to the public, public opinion, which always wants to be fair, would be very different.

Reports have been made to your committee from many states of the Union relative to acts of the legislatures during 1918-19, as affecting banks, and we have had the benefit of the information afforded by Judge Paton's summaries of legislation to the American Bankers Association, additional to the questionnaire that was sent by this committee earlier in the year to the secretaries of state bankers' associations. These sources of information produce proofs that very little legislation directly affecting national banks was attempted during the year just ended. It was shown that in a majority of the states national and state banks were taxed alike. In some states the state chartered institutions pay a license for the authority and privilege of transacting business. In several states the legislatures were not in session this year. A few of the states have by law decreed that shares of bank stock shall be taxed the same as other like property is taxed, and from these states the assurance comes that bankers are making no complaint.

It is anticipated that the report of Mr. Waldo Newcomer, Chairman of the Committee on Legislation of the American Bankers Association, will give a comprehensive review of the work of Congress and the state legislatures pertaining to the banking business during the past association year, including measures directly affecting national banks. In his summary of legislation Judge Paton directs attention to various legislative measures of interest to members of the national bank system. In Idaho Senate bill No. 63 amends the law as to the assessment of bank stock by providing that the assessment shall be in the same manner and upon the same basis of actual value and uniformity with all other property assessed in the county in which such shares of capital stock are assessed. Senate bill No. 19 reorganized the state banking department. In Indiana an important tax law was one of the prominent pieces of legislation enacted by this year's assembly. In Iowa a bill was passed permitting banks to deduct the amount of government securities held for 60 days prior to January 1 from the assessed valuation of stock of the bank. In Kansas Senate bill No. 26 concerns assessment and taxation; provides for the assessment of the shares in national, state and other banks and also in loan and trust companies organized under the laws of Kansas or the United States, to individual shareholders at the place where the bank is located. Under this law bank shares will be assessed on their book value. In Maine House bill No. 461 amends the law exempting certain public bonds from taxation by including the notes and other obligations of light and power districts and also including "notes and other obliga-

tions" as well as bonds of counties, municipalities, village corporations, light and power districts and water districts in the exemption. In Montana Chapter 51 provides for the classification of taxable property for the purpose of taxation and the percentage of the true and full value of each class which shall be taken and used as the basis for the imposition of the tax thereon. In Nebraska an amendment to Section 6343, revised statutes, prohibits banks, loan and trust or investment companies from deducting from the amount of capital stock, for purpose of assessment for taxation, the value of any United States government securities owned by them. In North Carolina provision has been made in the machinery act for the banks to pay all taxes, instead of the stockholders. In addition to the present deductions, in arriving at the value of the shares of stock, provision has been made that Liberty Bonds and Federal Farm Loan bonds can be deducted for taxation purposes up to 25 per cent. of capital, surplus and undivided profits. In Oregon Senate Bill No. 108 provides that real estate taxed shall be deducted from the bank's capital, surplus and profits and the remainder taken as basis of valuation of shares subject to taxation.

In closing this report we desire to acknowledge the assistance given us by the secretaries of state bankers' associations, Chairman Newcomer of the A. B. A. Federal Legislative Committee and Judge Thomas B. Paton, General Counsel of the Association. It is our belief that this Section should continue to have a Committee on State Taxation of National Banks in order that results thus far achieved be not lost and to the end that the undertaking to unify state laws on this subject be prosecuted to a successful conclusion. In a large way the Association's Committee on Federal Legislation considers and acts upon legislation relating to banking, but this Section has an important duty to perform to national banks in collecting information of proposed laws in the forty-eight states which would affect institutions holding national charters, in giving warning of those measures which would be unfair or oppressive, and in stimulating interest in such righteous legislation as will afford additional protection and increased opportunities for service and profit to national banks.

All of which is respectfully submitted.

PRESIDENT SANDS: Gentlemen, you have heard the report of the Committee on Taxation. I will say for the committee that they worked very hard and I am very hopeful that we will get some Federal legislation which will make it obligatory on each state in the Union to avoid discrimination in taxing shares of national banks. If there are no objections, the report will take the usual course.



We will now hear the report of the Committee on Resolutions by Chairman Woodruff.

## REPORT OF COMMITTEE ON RESOLUTIONS

**MR. WOODRUFF:** Mr. President, in accordance with your instructions your Committee has prepared a telegram to Secretary Carter Glass thanking him for his letter and assuring him of our realization of the importance of the matters that kept him at Washington and expressing our regret at his inability to be with us.

### REPLY BY SECRETARY GLASS

My warmest greeting for the American Bankers Association and very great regret that I could not attend its convention. I appreciate the co-operation of the National Bank Section and would be obliged if you will convey to the members individually and collectively my very genuine thanks for the co-operation which they have so cheerfully and generously given the Treasury since I have been here.

(Signed) CARTER GLASS.

The next resolution, Mr. President, is as follows:

We give it as our opinion that the meeting of the Section in St. Louis is the most successful of any yet held. For this gratifying state of affairs we find that credit should be given to many. First of all we thank the bankers and the people of St. Louis for their cordial welcome and generous hospitality. We make special mention of Mr. Joseph S. Calfee, former President of this Section, who has not spared himself labor or expense in arranging for the sessions of this body.

We make grateful acknowledgment of the magnificent addresses delivered before the Section by Hon. John Skelton Williams, Comptroller of the Currency, Washington, D. C.; Mr. Waldo Newcomer, president of the National Exchange Bank of Baltimore; Dr. Virgil M. Harris, trust officer of the National Bank of Commerce in St. Louis, and Dr. Douglas S. Freeman, editor of the *Newsleader* of Richmond, Va. We pay appreciative tribute to Rev. Z. B. T. Phillips, rector of St. Peter's Episcopal Church of St. Louis, who pronounced the invocation; to Mr. Harry B. Marshall of St. Louis, who led us in patriotic songs; and to Mr. H. W. Schaefer of St. Louis, who accompanied on the piano. Furthermore we thank the Old Colony Club of St. Louis, which placed its handsome suite of rooms in the Planters Hotel at the convenience of the Executive Committee of this Section. Nor should the press of St. Louis be overlooked in our gratitude for its full and favorable reports of our meetings.

Lastly, we give our cordial thanks to the officers, Executive Committee and various committees who have so intelligently, efficiently and faithfully served this Section during the past year. The trust we reposed in them has been fully justified. Their signal achievements have been the establishment of a branch service office in Washington, and the enlargement of our Executive Committee from six to twelve members, one each from the twelve Federal Reserve Districts. To them we say, "Well done, good and faithful servants, your great reward is the lasting confidence and gratitude of the National Bank Section of the American Bankers Association."

GEORGE WOODRUFF, *Chairman*.

R. F. McNALLY.

J. R. DOMINICK.

I move the adoption of the report. (Unanimously adopted.)

PRESIDENT SANDS: During the coming year the State Vice-Presidents will be called upon to do a great deal of work. Unfortunately the program has been so arranged this year that we could not hold a special meeting of our Vice-Presidents as we had hoped. If there are any State Vice-Presidents present, we would like to hear from them. We will hear from Mr. Herring, Vice-President from Mississippi.

MR. HERRING: In being elected Vice-President from my state, I felt that perhaps an empty honor had been conferred upon me for the reason that from those that have preceded me I could not find anything that they were required to do. However two weeks ago I addressed a letter to each national bank in the state of Mississippi and asked them if there was anything that I could in my humble way do for them at this convention. The replies were numerous and unanimous—"Do what you can to obtain the passage of what is known as House of Representatives Bill 7478, which permits us to loan 25 per cent. of our capital and surplus." Now speaking personally, I might say that I come from the only county in the state of Mississippi that does not produce cotton, but my national bank friends of the state are interested in that and as their representative I bring this matter to your attention in the hope that this Section will go on record in favor of the passage of that bill, and I would be extremely glad for some of my friends from Mississippi to take up the case where I leave off and push it along.

**PRESIDENT SANDS:** I have no doubt that the Comptroller of the Currency can tell us something about that bill.

**HON. JOHN SKELTON WILLIAMS:** That bill has been recommended for passage by the committees, and I think a resolution of expression of opinion from this body would be very desirable at this time.

**MR. HERRING:** In reading the proceedings of Congress a few days ago I found that the bill passed the House and received favorable report from the banking committee of the Senate, but that Senator Pomerene of Ohio was leading the opposition and that the bill has been referred back to the Banking and Currency Committee of the Senate and at my last reading it still remains there. Now if our good friends from Ohio who are present here will put some smoke under Senator Pomerene I think it would help us along.

**VICE-PRESIDENT WALTER W. HEAD:** It is on the calendar of the Senate, I think, but it occurs to me that if there is any one who can get in touch with Senator Pomerene and urge that this bill would permit us to do legally in an unlimited way what we have been doing illegally in a limited way, it would be some help to us, because he thinks it would be dangerous and cause inflation of the currency.

**MR. F. W. FOOTE (Mississippi):** This is a matter that affects every business in the country in every section of this country, and I move that the National Bank Section of the American Bankers Association address requests to the United States Senate to enact this amendment at its earliest convenience.

**MR. JOHN SHERMAN (Wisconsin):** I second the motion for the reason that we have in Wisconsin a state law that permits state banks to loan up to 50 per cent. of their capital and surplus by consent of the board of directors. They have a great advantage, therefore, over the national banks, because the national banks must adhere strictly to the law. We have been at a great disadvantage in this state. It has caused the establishment of a number of state banks, and two of the national banks were consolidated in order to create a larger capital and surplus to meet this condition. Now, if the Congress will amend the

national banking law so that we can loan on commodities, grain, and dairy products, cheese and butter, it will help the situation materially and also remove the unfair advantage which state banks have now over national banks and may be an incentive to a number of banks that belong to the state systems to become national banks. The state banks would like to be members of the Federal reserve system. Of course they are allowed to do so under the law, but if they come in under the law they fear that there will be a certain amount of their paper that will not be rediscountable with the Federal reserve banks. I am very much in favor of the adoption of a law of this kind, and I want to say further that in a great many states, as I have observed, the state banks have an advantage over the national banks, and in our local discussion at home there has been more or less talk in the state and county conventions (we have seven or eight groups and county associations of bankers) and the feeling has been that the banks under state supervision have a great advantage over national banks and from personal observation and experience at home I found that to be true. I always agitated that we ought to have one banking system and that is the Federal system and I can not for the life of me see why the people of this country can not see that we would all be better off if we were all under one system, for the good of everybody.

**PRESIDENT SANDS:** Before we pass to the report of the Committee on Nominations I want to say to Comptroller Williams that we appreciate very much his remaining throughout our session. I am reminded of a story told by Dr. Freeman. He told of Charles Lamb, stating that he hated somebody, and a friend of Charles Lamb said: "Why, I didn't know that you knew him." To which Mr. Lamb replied: "I don't; that is why I hate him; if I knew him I couldn't hate him." We all know Mr. Williams now and we love him and are glad to have had him with us.

The next will be the report of the Committee on Nominations, Mr. Delmer Runkle, Chairman.

**MR. RUNKLE:** The nominating committee appointed at your session yesterday herewith begs to submit the following names

for officers and members of the Executive Committee of the National Bank Section:

For President           Walter W. Head, Omaha, Neb.

For Vice-President   Henry H. McKee, Washington, D. C.

For members of the Executive Committee for a term of one year:

F. R. Dist. No. 1   Alfred M. Aiken, Boston, Mass.

“ “ Dist. No. 8   John G. Lonsdale, St. Louis, Mo.

“ “ Dist. No. 9   Theo. Wold, Minneapolis, Minn.

For a term of two years:

F. R. Dist. No. 12   George A. Kennedy, San Francisco, Cal.

For a term of three years:

F. R. Dist. No. 3   C. S. Calwell, Philadelphia, Pa.

“ “ Dist. No. 4   R. D. Sneath, Tiffin, Ohio

“ “ Dist. No. 6   Thomas R. Preston, Chattanooga, Tenn.

“ “ Dist. No. 10   James Ringold, Denver, Colo.

PRESIDENT SANDS: Gentlemen, you have heard the report of the Nominating Committee. Are there any other nominations? If not the Chair will hear a motion for the adoption of the report of the Committee as read. This added number of members is brought about by change in our by-laws increasing the Executive Committee during the next year; we will have eight to elect this year. These gentlemen have been distributed in accordance with the by-laws.

(The report was adopted and the gentlemen named were declared elected.)

PRESIDENT SANDS: Gentlemen, in presenting Mr. Head, your President, I wish to say that he has been ably serving this section as Vice-President and I know that he will make you a first-class President during the coming year. (Applause.)

PRESIDENT HEAD: I want to thank you for the honor conferred upon me and to assure you that during the coming year I shall endeavor to do my very best to do the things you want done and will keep in mind the benefit to be derived, and I want to say to you that my connection with the National Bank Section has been a pleasure to me.

The Committee will please present Mr. McKee, who has been elected Vice-President.

(Vice-President McKee is presented to the section and installed.)

VICE-PRESIDENT MCKEE: Mr. President, gentlemen: I want you to be assured that I am deeply sensible of the very high honor you have conferred upon me by making me Vice-President of the National Bank Section of the American Bankers Association. It is not my intention to make a speech and if I should attempt to do so, I do not believe I could add anything to what Mr. Head has said in regard to his pledge to work for you during the coming year. I, too, will do my very best to serve you. I thank you very much.

MR. MCKEE (Addressing Ex-President Sands): My colleagues on the Executive Committee have called upon me to perform one of the most pleasant duties that has ever been assigned to me. Under the rules of action, called our by-laws, the administration of the affairs of this section of our Association is entrusted jointly to the President and the Executive Committee. You have served during the past year as President of the National Bank Section and in the performance of your duties you have come in close personal contact with the members of the Executive Committee. It is not my purpose to speak of the work you have done for the members of the section because all of us know of your loyalty to the national banks and we fully appreciate what you have done to build up and strengthen our organization. But it is our desire to express to you publicly, before those assembled here, our appreciation of those attributes of character which have so endeared you to us and have made our relations so pleasant. Therefore, in behalf of the Executive Committee of the National Bank Section, I present to you and ask you to accept this silver pitcher and server as a token of our respect, our esteem and our genuine affection for you.

EX-PRESIDENT SANDS: Mr. President, I am overcome with your expression of regard and this gift. The National Bank Section has been very close to me. About seven years ago I

circulated a paper among the members asking for a special section for the national banks, for the reason that we were not getting questions peculiar to national banks before the whole Association. Those things that relate directly to the national banks were discussed with hundreds of bankers present who cared nothing about it and who had a vote on it. We had no way to express ourselves as an independent body. It took three years to get that through the Association. Finally it was realized and appreciated and the section was organized and results have fully justified this action and the foundation laid for a cooperating body that will have great influence in the upbuilding of the business interests of this country, and of great value to every national bank. The circulation of the addresses delivered here will be worth much to the national bankers of this country. I assure you that I am ready and anxious to do anything in my power to further the interests of the section, whether an officer or not, and I thank you very heartily for this testimonial. (Applause.)

PRESIDENT HEAD: I want to say to you, Mr. Sands, if you think you are through because you have this testimonial from the Executive Committee you have another think coming.

I want to say something about our Vice-President. He has been with the Association a long time and he has always been ready and willing to do everything he could and the Executive Committee have always felt by reason of his location at the seat of government that there was only one man that was so located where he could be reached. Mr. McKee has filled that position and there has never been a time that he has not responded freely and had I to choose a man to serve with me I would have chosen him and be glad to have him as a fellow officer.

Is there anything further?

A MEMBER: I move you that the programs for next year be mailed out a week before the convention, and I further would like to add that the speeches we had at this convention be published and sent out within a reasonable time.

(The motion was carried.)

The meeting was then declared adjourned.

Reports of the President, of the Executive Committee, and the Secretary of the National Bank Section follow.

## REPORT OF THE PRESIDENT

OLIVER J. SANDS

In view of the very full and interesting program of this Section, and the fact that matters of general interest to bankers will be fully and ably discussed before the whole membership of the Association, we have concluded that much valuable time would be saved and repetition avoided if the President's address be omitted. It was decided, however, that the reports of the several officers be printed and given to the members in attendance at this Convention, or those to whom any questions may arise, will discuss the matter contained in these reports with a view of securing information, or making suggestions, looking towards improved and enlarged service upon the part of the Section.

We have been deeply sensible of the great honor conferred and keenly aware of the responsibilities assumed, in being placed at the head of the only national organization of the bankers operating under Federal charters. This Section came into being at a time when almost the entire world was in a state of war, and conditions have been far from normal throughout this country since the Section was organized. This was particularly true after our country entered the strife, and the past year has been one of such unusual conditions in the financial world, that we can not help but feel that there have been many reasons why the administration of the affairs of the Section has not been all that some of the members might justly have expected.

Immediately after the last Convention the resignation of Mr. Thralls as Secretary of the Section was presented, he having been tendered an official position with the Discount Corporation of New York. The offer was of such a nature that it was impossible for us to present inducements sufficient to retain him, so we most reluctantly accepted his resignation. This was a great loss to the Section, as his unusual qualifications for the position and his experience in the office were of high value.

On January 1, Major Fred. W. Hyde assumed the position of Secretary. We felt that the Section was most fortunate in securing the services of Major Hyde, and our opinion has been fully justified by the able service he has rendered thus far. A change in the active head of an organization such as ours creates a break to a more or less degree in plans, methods and continuity of work. In our case, however, on account of the entire willingness of Mr. Thralls to assist his successor, and owing to Major Hyde's experience as a former President of the



Section, and his general qualifications, the work has progressed with the minimum of interruption.

The National Bank Section was organized on account of a recognized need upon the part of many National Bank members of the American Bankers Association of the necessity for an organization of the institutions chartered by the United States Government. These institutions, operating under Federal laws, and subject to strict Federal supervision and accountability, have many questions of primary interest to themselves which are of only secondary interest, and sometimes not so much as that, to a large percentage of the members of the Association. The officers and committees of the Section from the beginning have had uppermost in their minds the one object—that of service to members. It has been their desire to have interesting programs at their Conventions, and they have succeeded in that, but they have realized that the few hundreds of the members at Conventions are inadequately representative of a membership of six thousand six hundred, and that to be really worth while the Section should be engaged continually in performing some kind of service which the members are not able to so well secure from any other source. The several committees appointed to perform specific work will make their separate reports to you, and we shall not undertake to more than say that the Chairmen and members of your committees have been faithful in the performance of their several duties. Their work in most instances has hardly been started; they have been handicapped by the unusual conditions which have required so much extraordinary service upon the part of all loyal American Bankers. Were it a fitting time or place, or becoming in me, I should like here to utter some encomiums to the bankers of the United States. One year is little time to carry through plans for the improvement and reforms of laws, practices, methods, etc., but work has been undertaken which should result in great value to the national banking interests of the country. Much remains to be undertaken which will be of benefit to the banking and commercial interests, and the work of the Section, we sincerely hope, will receive the hearty support of every banker.

From almost the beginning it was realized that in order to render much real service of the every-day routine kind, the kind that makes the maintenance of an office equipment and a corps of officials and clerks worth while, the office of the Section should be located in the city of Washington. The reasons for this are so obvious to all national bankers that it is unnecessary to repeat them. If there is any advantage in having our headquarters in any one centrally located city over another, except in Washington, those who are most familiar with the work of our Section have failed to discover it. Our repeated requests for authority from the committees of the American Bankers Association to open our office in Washington have been granted to the

extent of permitting us to conduct a so-called Service office in the city of Washington. This office is opened and in operation. The Secretary's report will give in detail the results of a few weeks' experience there. Our headquarters should be in Washington. We perform no service to our members which can not be as well or better performed from our Washington office, and it is a useless expense of time and money for our offices to be divided. This Section will not become a part of a political organization if it is located in Washington any more than all the other national organizations now located in Washington are political. It must keep its members informed of all matters affecting their interests whether in Washington or elsewhere, but wholly on account of administration features it can be of greater service there than in any other location.

The more than 6,600 National Bank members contribute a large proportion of the total revenue of approximately \$400,000 received by the American Bankers Association. The sum asked of the Association by this Section for carrying on and developing an organization prepared and able to perform service of direct benefit and assistance to its members is \$20,000. It is possible that after another year everything now required by banks in Washington can be undertaken by your Section officers, thus saving expense and securing a direct and efficient service under your own management and direction. We see no reason why the Section officers and employees should not perform any possible service in Washington which may be required of them by any member of the American Bankers Association, whether a member of this particular Section or not.

The American Bankers Association is today one of the greatest organizations in the world. It has been a power for good in the up-building of the financial, commercial, agricultural, and almost every other line of human endeavor. It has contributed to the welfare of every person engaged in the banking business. Its future sphere of usefulness is limited only by the amount of energy and interest devoted to it by its individual members. That we need an association of all banks there can now be no question. Its plan of organization is the result of years of labor and experience. It should continue to foster the work of its several classes of members through these Sections, permitting them to serve their own membership to the fullest possible extent, but exercising over them the corrective and restraining influence of a wise and devoted parent, thus avoiding duplication of effort and waste of money and energy. More frequent and regular meetings of the Administrative Committee of the Association should be held, and at these meetings the chairmen of the Sections should make full reports of their work. This is the plan under which our successful banks are operated, and it would be, we feel sure, of great value to the Association.

The President feels under personal obligations to the officers of the American Bankers Association, to the members of the Executive Committee, and Secretary of the Section, and to the chairmen of the several committees of the Sections for their uniform spirit of helpfulness during the year of his service.

The coming year is one of great promise in the work of, by and for bankers, and in relinquishing the office of President of the National Bank Section, I do so with profound gratitude for the progress already made and high hopes for still greater accomplishment in the future, and pledge my continued best efforts to effect the realization of the plans for the growth and influence of the American Bankers Association and the National Bank Section.

## REPORT OF THE EXECUTIVE COMMITTEE

H. H. McKEE, Chairman

Since the last annual Convention of the American Bankers Association the Executive Committee of the National Bank Section has met three times—twice in New York City and once at the Greenbrier, White Sulphur Springs, W. Va.

At the meeting in New York City, November 21, 1918, the following subjects received attention:

The resignation of Mr. Thralls, Secretary of the Section, was received and the qualifications of several persons suggested for the office were discussed. It was decided that the new Secretary should devote all his time to the work of the Section and not divide his services with the Clearing House Section.

Mr. A. F. Dawson, President of the First National Bank of Davenport, Iowa, was appointed a member of the Executive Committee, to fill the vacancy created by the death of Mr. Nelson N. Lampert, and made chairman of the Legislative Committee.

The attention of the committee was called by the Secretary to numerous letters and telegrams received from banks in all sections of the country, asking the officer to endeavor to have the Comptroller of the Currency modify his requirement in regard to reporting earned and unearned interest and discount. The committee authorized and directed the officers to write to the Comptroller and ask him to simplify his order.

The meeting in New York City, December 10, 1918, was held jointly with representatives of the Clearing House Section. It was decided that in the future each of the two Sections represented at the meeting should have a secretary who would devote his services exclusively to his Section; and in pursuance of that policy Major Fred. W. Hyde

was engaged to act as Secretary of the National Bank Section from January 1, 1919.

The chairman of the Executive Committee was appointed a special committee of one to interview the Comptroller of the Currency and supplement by verbal appeal the letter authorized to be written to the Comptroller in connection with the subject of earned and unearned interest and discount.

The officers of the Section were directed to prepare and submit to the Administrative Committee of the Association arguments in favor of the removal of the office of the National Bank Section from New York City to Washington, D. C.

The meeting at the Greenbrier, White Sulphur Springs, was held May 19, 1919. At the meeting reports from special committees of the Section were received, including:

1. Committee on Acceptances,  
Mr. Sands, Chairman.
2. Committee on State Taxation of National Banks,  
Mr. Cox, Chairman.
3. Committee on Forms,  
Mr. Pondrom, Chairman.
4. Committee on Post War Conditions,  
Mr. Head, Chairman.
5. Committee on Secret Assignment of Accounts,  
Mr. Gatling, Chairman.

These reports were freely discussed, received and ordered filed. The committees were authorized to continue their work, except the committee of Post War Conditions, as the work of that committee has been taken over by the Committee on Commerce and Marine, of the American Bankers Association. Suitable resolutions of respect to the memory of Mr. Nelson N. Lampert, deceased, formerly a member of the Executive Committee, and Mr. Gustavus Warfield, Jr., deceased, formerly Vice-President of the Section for West Virginia, were adopted and spread upon the minutes of the meeting.

Mr. Sands, the President of the Section, was instructed to endeavor to secure from the Executive Council of the Association authority to establish in Washington, D. C., an office of the Section in charge of a competent representative. This authority was granted by the Executive Council and the officers of the Section were authorized to rent quarters in Washington and open the office as soon as possible.

Mr. Cox introduced the subject of Latin-American trade, which was discussed freely, and by resolution referred to the Committee on Commerce and Marine of the American Bankers Association, together with a request that said committee consider the establishment of a Bureau of Latin-American trade under the direction of the American Bankers

Association, to assist in furthering trade relations with Central and South America, the service rendered by the Bureau to be available to all members of the Association.

The Executive Committee approved proposed changes in the By-laws of the American Bankers Association, granting authority to each of the Sections to consider and act on legislation affecting its members, without expense to the Association, when and in the event the Federal Legislative Committee of the Association is not authorized or declines to become active in behalf of or against such legislation.

In addition to the subjects set forth, other matters of minor importance, most of them dealing with administrative work of the officers of the Section, were considered and acted upon at the three meetings to the end that efficiency go hand in hand with the desire of your officers and your various committees to serve you.

Pursuant to authority granted by the Executive Council of the Association and in obedience to directions from the Executive Committee of the Section, a service office was opened in the Southern Building in Washington, D. C., in July, 1919. The Secretary of the Section was instructed to spend part of his time in Washington, employ a stenographer, organize his office and devote his efforts to making the new venture a source of real service to the members of the Section. Thus the aspiration born at Briarcliff at the spring meeting of the Executive Council, in 1916, has become a reality.

Although the Washington office has been in operation less than three months, its strategical position in the Nation's Capital has enabled the Executive Committee and the officers of the Section to discover many opportunities for service to our members, and it is our belief that this office will soon become a source of very great practical benefit to the national banks of the country, which derive their powers from the Federal Government. The enactment of laws relating to their business and the interpretation of those laws by the Federal Reserve Board, the Comptroller of the Currency, and the Commissioner of Internal Revenue, are of such vital interest to the members of our Section that we should have available at all times in Washington a trusted official who can gather reliable information and answer questions relating to these matters quickly and accurately.

Since the Convention of the Association last year, seven measures affecting banks directly and indirectly have been passed by Congress and are now in effect.

1. The Act of March 3, 1919, amending sections 7, 10 and 11 of the Federal Reserve Act and section 5172, Revised Statutes.

2. The Act of March 2, 1919, to amend the Liberty Bond Act and the War Finance Corporation Act, and for other purposes.

3. The Act of March 2, 1919, to provide relief where formal con-

tracts with the United States Government have not been made in the manner required by law.

4. The Act of September 24, 1918, to supplement the Second Liberty Loan Bond Act as amended, and for other purposes.

5. The Act of February 24, 1919, to provide revenue, and for other purposes.

6. The Act of September 26, 1918, to amend and re-enact sections 4, 11, 16, 19 and 22 of the Federal Reserve Act, and sections 5208 and 5209 of the Revised Statutes.

7. The Act of November 7, 1918, to provide for the consolidation of national banking associations.

The seven measures referred to were passed during the second session of the Sixty-fifth Congress, which ended March 4, 1919.

During the first session of the Sixty-sixth Congress a large number of bills, directly and indirectly affecting the business of banking, were introduced. These measures are being closely watched by Mr. Waldo Newcomer, Chairman of the Committee on Federal Legislation of the Association, and by Judge Paton, the general counsel, who will report their status in detail to the Convention. Therefore it is not necessary to revert to all of them here, but it may be of interest to know that two measures relating to our business have been passed by the Senate and one by the House of Representatives:

S. 2472, known as the Edge Bill, which amends the Federal Reserve Act and permits the formation of banking corporations to do a foreign business and encourage export trade, has been passed by the Senate.

S. 170, which amends the Federal Reserve Act and permits National banks, with a capital of \$1,000,000 and over and that are located in cities having a population of 500,000 and more, to establish branches, has been passed by the Senate.

H. R. 7478, which amends section 5200 of the U. S. Rev. Stat., and allows National banks to lend a greater amount to one individual, firm or corporation than existing law permits, has been passed by the House of Representatives.

Mr. Sands, the President of the Section, has had several conferences in Washington with the chairman of the Executive Committee and the Section Secretary, and he has been in communication frequently, through the medium of correspondence, with the other members of the Executive Committee. Throughout his administration of the office of President he has worked directly and through standing and special committees and the office of the Secretary to upbuild and strengthen the Section to the advantage of its members. His course has been an inspiration to the members of this committee and he commands our respect, our confidence and our esteem.

The National Bank Section is fortunate in having a Secretary so well qualified to handle successfully, not only the details of his office,

but many diplomatic missions involving broad and complex matters relating to the work of the Section. Major Hyde has displayed rare tact and judgment. He is devoted to the interests of the Section, works tirelessly and conscientiously and strives constantly to broaden the power and influence of his office to the service of our members. It is a pleasure to us to pay this tribute of respect and appreciation to one whose qualities of mind and heart fit him so well for the place he occupies.

The program of the Section's activities for the next year should include: first, the development of the Washington office, and then, selected from a list of suggested activities, a few subjects which are of most vital importance to our members. One objective reached opens the road to another. Thus, step by step, progress is achieved.

In our quest for work to keep the Section organization busy until we meet again, let us fear not, if the trail should lead that way, to search our own minds and hearts. Perhaps the things we seek are already in our possession, perhaps the power we would have lies dormant in our keeping awaiting expression through the orderly process of friendly counsel and earnest co-operation, not only among ourselves but with others. Let us remember that every right and privilege we enjoy is founded upon duty and obligation. The seed must be planted before the harvest can be reaped. Thus, if each one of us is willing to indulge in a little introspection and seek to find the duty which society places upon him and discover the obligation which his membership in our great democracy imposes upon him, and when he discovers the truth, pursue a just course, even though it involve some measure of self-denial, the things of value which we seek and which we imagine are held in the keeping of others to be achieved by us only through strife, will come to us spontaneously.

## REPORT OF THE SECRETARY

FRED. W. HYDE

The most important year in the brief history of the National Bank Section is that of 1918-19, because the long-cherished plan to open an office of the Section in Washington, D. C., has been carried into effect. Jerome Thralls, who had served as Secretary since the Section was organized, resigned December 31, 1918, and since January 1, 1919, the office has been filled by the present incumbent.

The past year has been one of progress and achievement. In the general office of the Association in New York the work of the Section has proceeded along approved lines. At Washington the Section's branch service office was opened the first of July in the Southern Building, which is located in the financial district only one block from

the United States Treasury. The space occupied is Room No. 1, on the street floor, close to the H street entrance of the building. Here are on file volumes of information relating to Congress, the departments of the Federal Government, and the city of Washington, for the use of bankers. From the day the office was opened the volume of business has increased steadily; inquiries are answered, commissions undertaken, congressional bills and government publications obtained and forwarded and personal attention given to bankers who visit the capital. The purpose is to make the office a source and means of prompt and reliable service to bankers. As this agency of the National Bank Section becomes better known the conveniences, facilities and helps which it affords will be recognized and taken advantage of to an extent greatly beyond the present record. There really is illimitable opportunity in this new undertaking to serve the national bankers of the United States from the country's capital. The Section's horizon steadily widens. The range for the expansion of the duties and activities of our organization is, in fact, beyond our present comprehension.

The Executive Committee has held three meetings—two in New York and one at White Sulphur Springs, W. Va.

The 16 activities adopted by the Executive Committee have been the rules of practice by the present incumbent throughout the year. They are:

1. Conduct a campaign for a 100 per cent. membership of national banks in the American Bankers Association.
2. Cooperate with the Committee on Federal Legislation to the end that needed constructive legislation only shall be passed.
3. Make arrangements to render a greater amount of service to the members in connection with their transactions with the various departments of the Government at Washington.
4. Give attention to the operations of the so-called discount companies. Endeavor to have laws passed that will require public record to be made of all assigned accounts.
5. Make effort to get a National Bank Section organized within each State Bankers' Association.
6. Define duties of State Vice-Presidents and organize them into a council to meet with the Executive and various other committeemen of the Section at the time of the Annual Convention and at such other times as may be deemed necessary.
7. Arrange for periodical communication with all members of the Section.
8. Assist in a campaign of education and publicity designed to inform the bankers relative to the new features of the Federal reserve system covering particularly trade and bankers' acceptances and foreign banking, so far as it relates to national banks.
9. Create a Committee on Legislation to include in its membership



as its principal representative in each state the Vice-President of the Section for the state.

10. Arrange for the inclusion in the Federal Legislative Council of the Vice-Presidents of the American Bankers Association and the Vice-Presidents of the various sections of the American Bankers Association in each state.

11. Assist in the preparation of up-to-date forms for the use of banks. Evolve and develop improved plans, methods and systems for the various departments of member banks.

12. Have a special committee appointed charged with the responsibility of studying conditions with the view of making suggestions to the Executive Committee of the Section that may be used in aiding the banks throughout the country to equip themselves so as to render the maximum of service during the reconstruction period.

13. Aid in every possible way to encourage the national movement to create new savers, to increase thrift and industry among the people throughout the country, to direct credit into essential channels of production and to mobilize the banking resources of the United States to the maximum. Also study the field of savings business and give the members of the Section advice and information as to how to build up this particular department of their business.

14. Accord all possible aid to the Treasury and various other departments of the Government in the nation's financial program and general war activities.

15. Impress upon the public, through newspaper publicity and otherwise, the thought that no individual should dispose of his Liberty Bond holdings, either in exchange for other securities or otherwise, without first consulting with his banker.

16. Maintain close relations with the Federal Reserve Board, the Comptroller of the Currency, the National Association of Credit Men, and other leading business organizations whose good-will and assistance are essential in the proper solution of the important problems that confront the bankers.

The correspondence from this office during the past year aggregated over 3,000 letters, in addition to upwards of 7,500 form letters and questionnaires, and several hundred newspapers were mailed.

As representative of the American Bankers Association, the Secretary has attended the annual conventions of bankers' associations in the following states: Mississippi, Arkansas, New York, Ohio, Minnesota, North Carolina, and West Virginia. He also attended the annual conventions of the Credit Association of the Building Trades of New York, the American Acceptance Council, and the League for Industrial Rights; and the conference at Washington in which the Agricultural Commission of the American Bankers Association and representatives of the Federal Government participated.

At the meeting of the Executive Committee at White Sulphur Springs, in May, a new Section symbol was adopted.

The membership of the Section has increased from 6,337, August 31, 1918, to 6,616 on August 31, 1919, a gain of 279 during the year. On August 31, 1919, there were 1,289 non-member national banks.

From the Comptroller's office it is learned that 210 charters were granted to national banks during the year ending August 31, 1919; that 268 banks received authority to increase their capital; five reduced their capital; that the net authorized increase in capital is \$36,654,100; that the resources of national banks on June 30, 1919, were \$20,799,550,000, or an increase of \$2,960,048,000 over resources of June 29, 1918. There were two failures of national banks.

Up to and including August 25, 1919, the number of national banks that had been granted fiduciary powers by the Federal Reserve Board was 983. Of the state banks of the country, 1,090 had become members of the Federal reserve system on that date; on the par list, July 15, 1919, there were 8,848 member and 12,071 non-member banks.

The necrology of the year included the names of Nelson Norman Lampert, of Chicago, who was a member of the Executive Committee, and Gustavus Warfield, Jr., of Elkins, W. Va., who was State Vice-President from West Virginia.

From August 31, 1918, to August 31, 1919, the expenses of this Section amounted to \$10,796.63. As the appropriation was \$10,750, the Section's deficit at the end of the fiscal year was \$46.63.

In closing his report the Secretary makes grateful acknowledgment of the constant encouragement and assistance which he has received from the devoted officers and Executive Committee of the Section, and from his associates in the general office of the Association.

**OFFICERS OF THE  
AMERICAN INSTITUTE OF BANKING  
SECTION**

**AMERICAN BANKERS ASSOCIATION**

**1919-1920**

**Organized as a Section October 1, 1908**

**PRESIDENT:**

**GARDNER B. PERRY**

**National Commercial Bank, Albany, N. Y.**

**VICE-PRESIDENT:**

**STEWART D. BECKLEY,**

**City National Bank, Dallas, Texas.**

**SECRETARY:**

**RICHARD W. HILL,**

**5 Nassau Street, New York, N. Y.**

**EDUCATIONAL DIRECTOR:**

**GEORGE E. ALLEN,**

**5 Nassau Street, New York, N. Y.**

## BOARD OF REGENTS

- O. M. W. SPRAGUE, Chairman, Professor of Banking and Finance in Harvard University, Cambridge, Mass.  
E. W. KEMMERER, Professor of Economics and Finance in Princeton University, Princeton, N. J.  
FRED I. KENT, Bankers Trust Company, New York, N. Y.  
FRANK C. MORTIMER, National City Bank, New York, N. Y.  
GEORGE E. ALLEN, 5 Nassau Street, New York, N. Y.

## EXECUTIVE COUNCIL

(TERM EXPIRING 1920)

- J. C. THOMSON (ex-officio), Northwestern National Bank, Minneapolis, Minn.  
STEWART D. BECKLEY (ex-officio), City National Bank, Dallas, Texas.  
CLARENCE A. RATHBONE, First National Bank, Haverhill, Mass.  
WILFRED A. ROPER, Bank of Commerce & Trusts, Richmond, Va.  
FRANK J. MAURICE, Federal Reserve Bank, Detroit, Mich.  
FRANK B. MELLEN, Union Commerce National Bank, Cleveland, Ohio.

(TERM EXPIRING 1921)

- GARDNER B. PERRY (ex-officio), National Commercial Bank, Albany, N. Y.  
JOHN S. CURRAN, Anglo & London Paris National Bank, San Francisco, Cal.  
THOS. H. WEST, Ladd & Tilton Bank, Portland, Ore.  
SEVER DALEY, Pioneer State Bank, Denver, Colo.  
LOUIS C. GEORGE, Fifth-Third National Bank, Cincinnati, Ohio.

(TERM EXPIRING 1922)

- HENRY R. KINSEY, Williamsburg Savings Bank, Brooklyn, N. Y.  
E. J. McQUADE, Liberty National Bank, Washington, D. C.  
J. H. McDOWELL, American Trust & Banking Company, Chattanooga, Tenn.  
JOSEPH J. SCHROEDER, National Bank of the Republic, Chicago, Ill.

**SUMMARY OF BUSINESS TRANSACTED AT THE  
SEVENTEENTH ANNUAL MEETING OF THE  
AMERICAN INSTITUTE OF BANKING SECTION,  
AMERICAN BANKERS ASSOCIATION, AT  
NEW ORLEANS, LA., OCTOBER 7-9, 1919**

The seventeenth annual convention of the American Institute of Banking, held at New Orleans October seventh, eighth and ninth, was truly a victory celebration. The menace of military might and the lust of empire no longer occupied the thoughts of the delegates. In attendance the convention was the largest, in enthusiasm the most vigorous and in results the most successful in the history of the organization. Readjustment problems of profound significance were consistently considered from the standpoint of banking. The program was an attractive combination of interesting speakers and interesting subjects. The entertainment features reflected the proverbial hospitality of American Southland blended with the historic graces of France and Spain.

**FIRST SESSION—TUESDAY MORNING**

J. C. Thomson, President of the Institute, called the convention to order in the Convention Hall of the Grunewald Hotel on Tuesday morning. The program of the first session was as follows:

**INVOCATION**—By Rev. Father John M. McCreary, S. J., College of the Immaculate Conception.

**GREETINGS**—Hon. Martin Behrman, Mayor of the City of New Orleans; Emmet Jones, President of New Orleans Chapter.

**RESPONSE TO GREETINGS**—Gardner B. Perry, Vice-President of the American Institute of Banking.

**GREETINGS FROM THE AMERICAN BANKERS ASSOCIATION**—Address by Col. F. E. Farnsworth, General Secretary of the American Bankers Association.

**"INSTITUTE INVENTORY"**—Annual address by the President of the Institute, J. C. Thomson, Assistant Cashier of the Northwestern National Bank of Minneapolis.

**REPORT OF THE CHAPTER SURVEY COMMITTEE**—In the absence of James Rattray, Chairman of the Chapter Survey Committee, the report of that committee was presented by M. W. Harrison, a member of the committee. The delegates were requested to read the report in order that they might be fully informed when the matter was brought before them for action at the business session of the convention.

**"THE SOUTH OF TODAY"**—Address by R. S. Hecht, President of the Hibernia Bank and Trust Company of New Orleans and Past President of the Institute.

"GREATER EDUCATIONAL FACILITIES FOR THE INSTITUTE"—Address by W. A. Day, Deputy Governor of the Federal Reserve Bank of San Francisco.

COMMITTEE ON DEPARTMENTAL CONFERENCES—President Thomson appointed as the Committee on Departmental Conferences: Herbert E. Stone of Boston, Chairman; New Business, D. A. Mullen of Pittsburgh; Audit, H. J. Moore of San Francisco; Savings, J. F. Wood of Richmond; Tellers, H. J. Kneip of Albany; Office Managers, C. H. Chaffee of Philadelphia; Transit, A. J. Huglin of Des Moines; State Chapters, W. G. Coapman of Milwaukee; Collections, W. C. Phillips of Seattle; Books, H. Pickrell of Chicago; Advertising and Publicity, J. B. Birmingham of New York; Credit and Statistical, Max Steiner of Chicago; Federal Reserve Banks, Bert V. Chappel of Cleveland.

COMMITTEE ON CREDENTIALS—The President appointed as the Committee on Credentials: R. E. Chambers, Chairman, of New Haven; S. J. Fuller of Atlanta, P. P. Brown of Asheville, J. T. Hanefy of Rochester, A. S. Banmiller of Harrisburg, F. D. Rice of Dayton, G. H. Wagner of Indianapolis, V. S. Fuqua of Memphis, W. J. Stutzman of St. Paul, F. P. Giltner of Joplin, E. P. Gum of Oklahoma City, G. T. Pierce of Tacoma.

BE ON TIME COMMITTEE—The President appointed as the Be on Time Committee: N. E. Bertel, Chairman, of New Orleans; Frank V. Moise of New Orleans, J. H. Guthans of New Orleans, T. F. Regan of New Orleans, J. R. Parrish of Salt Lake City, W. B. Kramer of Scranton, J. H. Trowbridge of New York, O. S. White of Philadelphia.

RESOLUTIONS COMMITTEE—The President appointed as the Resolutions Committee: R. D. Spaulding, Chairman, of Chicago; J. H. Puelicher of Milwaukee, P. Sayward of Boston, T. Oas of Minneapolis, O. F. Allgaier of Spokane, S. D. Beckley of Dallas, C. A. Schacht of St. Louis.

#### SECOND SESSION—TUESDAY AFTERNOON

The second session was entirely devoted to the debate between New York Chapter and Chattanooga Chapter. The question at issue was: "Resolved, That Congress Co-ordinate the Merchant-Marine and Railroads for the Purpose of Encouraging Foreign Trade." The Chairman of the National Committee on Public Speaking and Debate, E. A. Lahm of the Citizens Savings Bank of New York, presided. The debaters were W. L. J. Conway of the Guaranty Trust Company of New York, F. G. Newell of the Metropolitan Trust Company of New York and W. G. F. Price of the National City Bank of New York, for New York Chapter, and John R. Dean of the Hamilton National Bank of Chattanooga, Russell R. Rushton of the Chattanooga Savings Bank of Chattanooga and Noble J. Simmons of the Chattanooga Savings Bank of Chattanooga for Chattanooga Chapter. The judges were Dr. M. A.

Aldrich, Dean of Tulane University of New Orleans; L. M. Pool, President of the Marine Bank and Trust Company of New Orleans, and Hon. H. G. Dufour, Attorney-at-Law of New Orleans. Decision was for Chattanooga.

**PRESIDENTS' CONFERENCE**—The conference of chapter presidents was conducted under the direction of the Chairman of the National Committee on Chapter Presidents' Conference, Andrew T. Matthew of the Bank of California, N. A., of Portland. The conference discussed at length the report of the Chapter Survey Committee and in connection with that report made several pertinent suggestions to the convention. It was found that the time allotted to the conference was insufficient to enable it to discuss all the matters in which the members were interested and an adjourned conference was held on Thursday afternoon. In addition to a discussion of chapter presidents' problems the following addresses were made at the conference: "Practical Application of Institute Work," by Godfrey F. Berger of New York Chapter; "Holding the Older Members and Graduates," by Howard J. Moore of San Francisco Chapter; "Study of Commercial Law," by William W. Allen, Jr., of Philadelphia Chapter, and "Chapter Financing," by Joseph J. Farrell of New Orleans Chapter.

### THIRD SESSION—WEDNESDAY MORNING

Vice-President Gardner B. Perry presided at the third session of the Convention Wednesday morning. Following is an outline of the program:

**INVOCATION**—By Rev. U. G. Foote, Pastor of the Rayne Memorial M. E. Church.

**EDUCATIONAL DIRECTOR**—At the request of President Thomson, George E. Allen, Educational Director of the Institute, addressed the convention.

**EXECUTIVE COUNCIL**—The report of the Institute Executive Council was read by Educational Director George E. Allen. The Council approved the proposed amendments to sections 3 and 9 of the Institute by-laws and recommended their adoption. The convention accordingly adopted the amendments. Sections 3 and 9 of the Institute by-laws, as amended provide for the creation of the office of secretary of the Institute and make bank officers and other employees outside of the jurisdiction of city chapters and state chapters eligible to membership in the Correspondence Chapter.

**"HAS THE WAR MADE US BETTER BANKERS?"**—Address by J. Howard Ardrey, Vice-President of the National Bank of Commerce of New York.

**"PRACTICAL BANKING"**—A symposium on Practical Banking was conducted under the direction of John S. Curran, Assistant Cashier of the

Anglo and London-Paris National Bank of San Francisco. Papers were read by the following: "Modern Bank Machinery," Herbert E. Stone of Boston, D. P. Clifford of Toledo, Joseph J. Schroeder of Chicago, P. C. Turman of Los Angeles; "Social Side of Banking," by Thomas I. Miller of Atlanta, J. F. Wood of Richmond, A. E. Caldwell of Oakland; "New Business," by Don. A. Mullen of Pittsburgh, Otto F. Allgaier of Spokane, Andrew C. Dorris of Nashville; "Bank Advertising," by R. D. Spaulding of Chicago, Thomas F. Regan of New Orleans, R. E. Ross of St. Paul; "Trust Departments," by Perceval Sayward of Boston, W. L. Peel of New York.

#### FOURTH SESSION—THURSDAY MORNING

This entire session was devoted to the consideration of the subject of "Acceptances."

INVOCATION—The Invocation was delivered by Freas Brown Snyder of Philadelphia, in the following words: "As day returns, bringing its petty round of irritating concerns and duties, help us to play the man, help us to perform them with laughter and kind faces. Let cheerfulness abound with industry, and give us to go blithely on our business of this day, and bring us to our resting beds weary and content and undishonored, and grant us in the end, the gift of sleep."

"AMERICAN DISCOUNT CORPORATIONS—THEIR PURPOSE"—Address by Jerome Thralls, Secretary-Treasurer of the Discount Corporation of New York. An interesting discussion followed the address of Mr. Thralls.

"OBJECTS OF THE AMERICAN ACCEPTANCE COUNCIL"—Address by Robert H. Bean, Executive Secretary of the American Acceptance Council, New York.

"THE AMERICAN DEVELOPMENT OF THE ACCEPTANCE IN COMMERCIAL LINES"—Address by Freas B. Snyder, President of W. C. Hamilton & Sons of Philadelphia and formerly Vice-President of the First National Bank of Philadelphia.

ACCEPTANCES—A symposium on Acceptances, under the direction of Freas Brown Snyder, brought out some interesting discussion on this subject.

#### FIFTH SESSION—THURSDAY AFTERNOON

"FOREIGN EXCHANGE AND ITS RELATION TO FOREIGN TRADE"—Address by John Bolinger, Vice-President of the National Shawmut Bank of Boston.

"THE BUSINESS MAN IN COMMERCIAL ORGANIZATION"—Address by F. N. Shepherd, Field Manager of the Chamber of Commerce of the United States, Washington, D. C.

REPORTS OF COMMITTEES—The following committees presented re-



ports which were received and filed: Membership, Bruce Baird, Chairman; Public Speaking and Debate, E. A. Lahm, Chairman; Program, Stewart D. Beckley, Chairman; Transportation, Henry H. Ahle, Chairman; Public Affairs, Gardner B. Perry, Chairman.

**INSTITUTE RESOLUTIONS**—The Committee on Resolutions submitted the following report which was enthusiastically adopted by the convention.

The most appalling war the world has ever known has ended and we are fortunately able to enjoy once more the blessings of peace.

At the present time we are confronted with numerous important problems due to economic changes resulting from the war, but we look forward to the future with confidence and believe that the sinister motives of those who have attempted to spread abroad in our land the seeds of bolshevism and other similar doctrines are rapidly becoming evident to every one and soon will be entirely discredited.

Ours is an educational association organized for the benefit of the banking fraternity of the country and within our membership may be found on an equal basis both employees and employers, and in full appreciation of the opportunities which our country and its established institutions afford, and especially in appreciation of the fact that the profession of banking affords to its diligent and loyal members special opportunities for promotion to official and managerial positions, and as a result of the establishment and maintenance of the merit system in most banks a large number of Institute members have through individual application achieved marked professional success; we at all times and under all circumstances stand for the merit system and for the paying of salaries according to the value of the service rendered.

We believe in the equitable cooperation of employees and employers and are opposed to all attempts to limit individual initiative and curtail production, and insofar as our profession is concerned, are unalterably opposed to any plan purporting to promote the material welfare of our members, individually or collectively, on any other basis than that of efficiency, loyalty and unadulterated Americanism.

Intelligent and systematic practice of thrift develops a higher type of individual and increases the economic strength of the nation; we therefore pledge ourselves to continue in cooperation with the several bureaus and departments of the government and also such other organizations or agencies as are engaged in promoting public and private thrift. We especially pledge ourselves to support and work for the success of the thrift plans being made for the week beginning January 7, 1920, by the War Loan Organization of the Treasury Department.

To the bankers and citizens of New Orleans, and to the members of New Orleans Chapter, we express our hearty thanks and appreciation for their cordial hospitality. We also express our thanks and appreciation to Mayor Behrman for his warm welcome, and to the several speakers for their very instructive and inspiring addresses.

To the officers and the several committees of the Institute, and especially to the Transportation, Program and Arrangement Committees we express our appreciation for their work in making possible the holding of such a successful convention.

To the Ladies' Committee of New Orleans Chapter, we express our sincere thanks and appreciation for the courtesies which they have so graciously tendered.

To our Educational Director for the able manner in which the educational work of the Institute has been conducted, we express our appreciation and take this opportunity to offer assurance of our earnest cooperation and support.

The American Bankers Association has continued to encourage and support our work and we express to the Officers of the Association our thanks for their keen interest in our progress and welfare.

During the past year several local conferences of Chapter Presidents have been held and much good has resulted therefrom and we suggest to the Executive Council that they consider the advisability of making definite plans for the holding of similar conferences at stated intervals in the future.

Most chapters in the Institute hold their annual elections during the month of May, thus affording their newly elected officers an opportunity to plan their educational and other activities during the summer months. We believe that it would be of advantage to local chapter officers to have the Convention of the Institute held early in the summer thus giving them an opportunity to meet and confer with other Institute leaders before definitely arranging their annual programs. The advisability of holding our conventions at an earlier date is submitted to the Executive Council for their very careful consideration.

Increased expenses resulting from an extension of our educational activities leads us to believe that it would be advisable to confer with the officers of the American Bankers Association regarding our finances and we therefore request them to receive our newly elected President and his two immediate predecessors in office as a committee authorized to discuss plans for closer financial cooperation.

The movement to introduce trade and bankers' acceptances into more general use has grown in importance and the advisability of making so extensive a change in American business methods is receiving the careful attention of leading business men and bankers. We recommend that the proper use of acceptances and the growth of this movement be studied exhaustively by our members.

These then are the sentiments of the delegates to the seventeenth annual convention of the American Institute of Banking, in executive session assembled at New Orleans, Louisiana, this ninth day of October, 1919.

Respectfully submitted:

RALPH D. SPAULDING, *Chairman*,  
J. H. PUELICHER,  
P. SAYWARD,  
T. OAS,  
O. F. ALLGAIER,  
S. D. BECKLEY,  
C. A. SCHACHT,

*Committee on Resolutions.*

**DELEGATES IN ATTENDANCE**—The Committee on Credentials submitted a report which was adopted by the convention showing that delegates were in attendance from the following chapters: Akron, Albany, Asheville, Atlanta, Baltimore, Birmingham, Baltimore, Boston, Buffalo, Bridgeport, Chattanooga, Chicago, Cincinnati, Cleveland, Dallas, Danville, Dayton, Denver, Des Moines, Detroit, Harrisburg, Hartford, Indianapolis, Jacksonville, Joplin, Kansas City, Los Angeles, Lynchburg, Memphis, Milwaukee, Minneapolis, Nashville, New Haven, New Orleans,

New York City, Oakland, Omaha, Philadelphia, Pittsburgh, Portland, Providence, Rochester, Richmond, Sacramento, Salt Lake City, San Francisco, Scranton, Seattle, Spokane, St. Louis, St. Paul, Syracuse, Tacoma, Toledo, Utica, Washington, Wheeling, Oklahoma State, Texas State, Wisconsin State and Correspondence Chapter. The number of delegates in attendance was about 525, representing a voting strength of 860.

**CONVENTION CITY**—Perceval Sayward, President of Boston Chapter, presented an invitation to the delegates, in behalf of Boston Chapter, to hold their 1920 convention in the city of Boston. His invitation was enthusiastically received and unanimously accepted.

**NEW INSTITUTE OFFICERS**—The following-named officers were duly elected:

**President**—Gardner B. Perry, National Commercial Bank, Albany, N. Y.

**Vice-President**—Stewart D. Beckley, City National Bank, Dallas, Tex.

**Members Executive Council**—Henry R. Kinsey, Williamsburg Savings Bank, Brooklyn, N. Y.; E. J. McQuade, Liberty National Bank, Washington, D. C.; J. H. McDowell, American Trust and Banking Company, Chattanooga, Tenn.; Joseph J. Schroeder, National Bank of the Republic, Chicago, Ill.

Subsequently, at a meeting of the new Executive Council, Richard W. Hill was appointed secretary of the Institute.

**BANQUET**—On Wednesday evening, New Orleans Chapter tendered a banquet to the visiting delegates at the Grunewald Hotel. Hon. Charles A. O'Neill, Justice of the Supreme Court of the State of Louisiana, was the toastmaster. Addresses were made by Paul H. Saunders, President of the Canal-Commercial National Bank of New Orleans; John H. Puelicher, Vice-President of the Marshall and Ilsley Bank of Milwaukee; J. C. Thomson, retiring Institute President, and George E. Allen, Educational Director of the Institute.

**ENTERTAINMENT FEATURES**—The early arrivals on Saturday, October 4, were guests at luncheon in the dining room of the Hibernia Bank & Trust Company, and in the afternoon were piloted to Pass Christian on the Gulf of Mexico, where they were entertained at the Hibernia Cottage Saturday and Sunday. The special trains carrying the Institute delegates followed one another into New Orleans all day Monday and the Grunewald lobby resembled a large family reunion.

The gentlemen were entertained at a smoker Monday evening and the ladies thoroughly enjoyed a well arranged theatre party. On Tuesday the ladies were conveyed to the Southern Yacht Club for luncheon, after which they were entertained by a delightful concert. On Tuesday evening the delegates and ladies were taken by special cars to the Spanish Fort where they danced until midnight. On Wed-

nesday the delegates were splendidly entertained on board the steamer Sidney which cruised up and down the Mississippi River. On Thursday the ladies were invited to lunch at the Pickwick Club. On the same evening motors and special trolleys took the delegates and the ladies to a reception and dance at the Country Club. On Friday the cotton warehouse and docks and the plant of the American Sugar Refining Company were inspected. Some of the delegates left New Orleans on Friday; about 160 boarded the steamship Creole on Saturday, for New York where they arrived after a wonderful five-day trip.

# **OFFICERS STATE SECRETARIES SECTION**

**AMERICAN BANKERS ASSOCIATION**

**1919-1920**

**Organized October 7, 1910**

## **PRESIDENT:**

**ROBERT E. WAIT,**  
Secretary Arkansas Bankers Association, Little Rock.

## **FIRST VICE-PRESIDENT:**

**D. S. KLOSS,**  
Secretary Pennsylvania Bankers Association, Tyrone

## **SECOND VICE-PRESIDENT:**

**ANDREW SMITH,**  
Secretary Indiana Bankers Association, Indianapolis

## **SECRETARY-TREASURER:**

**M. A. GRAETTINGER,**  
Secretary Illinois Bankers Association, Chicago

## **BOARD OF CONTROL**

**ROBERT E. WAIT,** Secretary Arkansas Bankers Association, Little Rock.  
**D. S. KLOSS,** Secretary Pennsylvania Bankers Association, Tyrone.  
**E. P. GUM,** Secretary Oklahoma Bankers Association, Oklahoma City.  
**W. C. McFADDEN,** Secretary North Dakota Bankers Association, Fargo.  
**E. A. HAVENS,** Secretary Rhode Island Bankers Association, Providence.

**SYNOPSIS OF BUSINESS TRANSACTED AT THE  
NINTH ANNUAL MEETING OF THE STATE  
SECRETARIES SECTION, AMERICAN  
BANKERS ASSOCIATION**

**Being the Eighteenth Annual Meeting of the Organization of  
Secretaries of State Bankers Association, at St. Louis**

**September 30-October 1, 1919**

**By M. A. GRAETTINGER, Secretary**

An interesting program was arranged for the annual meeting of the State Secretaries Section, which was divided into two sessions in order to coincide with the general program, the first being held in the Ball Room on the 16th floor of the Statler Hotel Tuesday afternoon, September 30, and the second in the Banquet Room on the 17th floor of the Statler Hotel Wednesday afternoon, October 1. President Colburn of California, presided. Twenty-nine Secretaries answered to the roll call and there were also a few Assistant Secretaries present. All formal addresses were eliminated, the time being devoted to discussions of special subjects as designated on the program, followed by an open forum on all matters associational and secretarial, under the topic: "Shop Talk."

The work of the year was comprehensively covered by the Secretary's report, which also contained several recommendations. Its various features were considered seriatim, the first item being the Service Bulletin, which the Secretary stated was a new feature of the Section's activities inaugurated during his administration, its mission being to disseminate information gathered from the Secretaries of the various associations and the fact that some very commendatory letters had been received from Section members and officials of the A. B. A. indicated that it had been successful in supplying the need for such a medium.

In speaking of the future possibilities of the Service Bulletin, the Secretary said:

"While the Bulletin is still in its infancy, my short experience in editing it has only served to strengthen my original belief in its great possibilities for effective service and I have no doubt that the future will open many new avenues of activity. I am particularly impressed with the value of its mediumship in Federal legislative matters, when it is necessary to concentrate the influence of all the bankers' associations either for or against proposed legislation, and also in keeping the members closely in touch with what is going on in Washington. Perhaps its greatest opportunity to render valuable service is in connection with the protective work, where there is need of an avoidance of duplication of effort and where quick action is necessary to apprehend a criminal.

"While it is true that the work of the associations in the various states is dissimilar, as they do not all specialize along the same lines, fundamentally, it is the same, and the general knowledge of what is being done by the 'other associations' will help each secretary and make his work easier and more effectual irrespective of the scope of the activities of his association.

"I am very optimistic as to the future possibilities of the Bulletin, but I have also been impressed with some of the obstacles to be overcome if it is to attain the full measure of these possibilities. I have no doubt that all the Secretaries do wish to cooperate to the fullest extent, but it would seem that some have not yet seen the advantages offered by the Bulletin in bringing about an interchange of ideas and do not realize that this service can only be of benefit if all take an active interest and comply with requests promptly."

It was unanimously voted to continue the Service Bulletin in its present form.

Referring to finances, it was reported that disbursements for the year amounted to \$2,547.47, whereas the total appropriation of the Executive Council amounted to \$2,250.00, leaving a debit balance of \$297.47.

The Secretary's recommendation that the publication of the Section proceedings in a separate book be discontinued and that hereafter they be incorporated in the general book of the A. B. A., was adopted, it being the consensus of opinion that this would be a more practicable arrangement from both the standpoint of economy and distribution.

A budget, providing for an expenditure of \$4,000 for the

ensuing year, was presented, which the Secretary announced had received the approval of the Board of Control at a meeting held on September 29, and had been so filed with General Secretary Farnsworth.

An interesting report was presented by Secretary W. C. Macfadden of North Dakota, Chairman of the Committee on Forms—the other members being M. A. Graettinger, Illinois; George D. Bartlett, Wisconsin; George H. Richards, Minnesota—who said that after a general discussion of the subject of Bank Forms, the Committee had deemed it advisable, in view of the new conditions arising from the issuance of the great volume of Liberty Bonds, to concentrate its efforts upon the preparation and recommendation of forms for the handling of Liberty Bonds and other negotiable securities by banks. Four forms were therefore agreed upon.

First, a form of receipt for bonds left with the bank for safekeeping with an agreement to return the identical bonds left with the bank. Second, a form of receipt for the same purpose but not agreeing to return the identical bonds left with the bank. Third, a form of receipt and rental agreement for safety deposit boxes, and fourth, a Record Book to be used exclusively for keeping a record of bonds and negotiable securities left with the bank for safekeeping.

Secretary W. F. Macfadden stated that in the forms of receipts and safety deposit box rental agreement, the liability of the bank was distinctly stipulated and the wisdom of the use of forms of this kind had been demonstrated by the fact that within the past two months banks not using a proper form of receipt for negotiable securities left for safekeeping, had been involved in litigation of an expensive and annoying character.

He further stated that copies of all the forms agreed upon by the committee had been sent to all members of the Section by Secretary Graettinger, and through the efforts of some of the members, the forms recommended had been generally adopted by a number of associations.

The Committee expressed its belief in the existence of an opportunity for rendering valuable service in the continuance of the effort to standardize forms used by banks and especially the effort to standardize the size of checks, drafts, certificates of deposit and cashier's checks. It also recommended the use



of separate and distinct forms of time certificates and demand certificates and that the records of such certificates be kept in separate registers in the smaller banks, as is generally done in the larger banks. On motion, the report was accepted and the committee continued.

Secretary George H. Richards of Minnesota, in opening the discussion on "The Daylight Hold-Up Menace and Other Matters Protective," described a plan which he said is being used with very good effect by the banks in Minnesota. This provides for the installation of an inexpensive electric alarm connecting with the office or place of business of some of the bank's directors or stockholders, who would be provided with sawed off shotguns. Mr. Richards stated that the only objection to this plan is the fact that there would be a liability attaching to the bank in the event an innocent person was injured as a result of the discharge of these guns. However, he considered the chance of such liability occurring very remote, believing that it would seldom be necessary to use the guns, and called attention to the fact that banks are assuming a far greater liability every day under the Workmen's Compensation law through exposing their officers and office force to the hazard of the daylight hold-up artists.

It was the sense of the meeting that the Secretaries should recommend to members in their respective states the great desirability of surrounding themselves with every possible safeguard against daylight hold-up in accordance with some of the following suggestions offered:

Installation of a simple electric alarm connecting with nearby stores, where responsible persons shall be provided with firearms.

That banks in smaller communities close during the noon hour to avoid the danger of having only one person in charge.

Having as little cash as possible on the counters; keeping the remainder in the safes under lock.

That the bolts on the vault door be thrown when the door is open so as to prevent the possibility of anyone being locked in.

That an electric torch be provided within the vault, also written directions as to how to proceed to notify the surrounding neighborhood to be on the lookout for the criminals in case of an attack.

It was also suggested that the Secretaries bring to the attention of

the banks that investment in burglar alarms will materially decrease the cost of their burglary insurance.

Secretary Gum of Oklahoma, asked for the support of all the members for the bill introduced in the Senate by Senator Gore, as a result of a resolution adopted by the Oklahoma Bankers Convention, making bank burglary a federal offense, as follows:

"To provide that robbery of a Federal reserve bank or member bank shall constitute a felony and for other purposes. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

"That any person who assaults any officer or employe of any Federal reserve bank or member bank, as defined in the Federal Reserve Act approved December 23, 1913, within the building occupied by any such bank, with intent to rob, steal or purloin any money, securities or other personal property in the custody or possession of such bank, or forcibly breaks into or attempts to break into any such bank with intent to commit therein any larceny or depredation, or robs or attempts to rob any such bank, shall be guilty of a felony, and upon conviction for first offense under this section shall be punished by a fine of not less than two thousand dollars, or imprisonment for not less than two years nor more than ten years, or by both such fine and imprisonment; and any such person who in effecting or attempting to effect such robbery or forcible entry, wounds or injures any officer or employe of such bank, or who puts the life of any such person in jeopardy by the use of a dangerous weapon, or is convicted of a subsequent offense under this section, shall be punished by imprisonment for not exceeding twenty-five years."

Secretary Gum explained that it was necessary to stipulate in the bill that the bank must be a member of the Federal Reserve System because such banks as are not members of the Federal Reserve System are not under the jurisdiction of the United States Congress and cannot be so regulated. The bill has been referred to the Senate Judiciary Committee and is expected to be reported out at any time.

"Sectional Conferences of Secretaries" was discussed by Secretary Bartlett of Wisconsin, who advocated group conferences of association officials as a valuable medium for securing cooperation throughout the entire country in connection with protective work and to broaden the real work of the Secretaries Section. He said in part:

"The Secretaries of the Eastern and New England States could provide a splendid representation, and with very little expense to each association. The western states are so extended in territory, that it would necessitate a greater mileage and therefore a greater expense, but if the Presidents and Secretaries of eight or ten western states could assemble at the most central point, even though it be among the Mormons, I am positive each association would benefit in the future years, and by the increased membership alone, would more than provide additional funds with which expenses could be met."

Secretary Haynes McFadden of Georgia led the discussion on "Uniform State Banking Laws" and brought out the fact that the new banking act adopted by his State is a composite of all the good laws in the various states. For many years anyone could put up a sign and open a bank in Georgia, but this will be done away with when the new law goes into effect January 1.

"Safeguarding Liberty Bonds of Customers" was a pertinent subject given consideration by the meeting and Mr. Fred Bowman, Assistant Secretary from Kansas, offered the plan of the banks making a charge to their customers for the care of their bonds, carrying them in the safe covered by ample insurance.

Secretary Hoyt of Connecticut said his bank followed a plan whereby bonds were received from customers and credited on the savings account, the bank carrying them in their assets at par, and paying interest on them at 3 per cent. per annum.

The fact that moving pictures may be used to good advantage in educating the public to work, save and invest, was forcibly brought out by a discussion of "Thrift Propaganda by Means of Moving Pictures," which was graphically illustrated by moving pictures shown by the Rothacker Film Manufacturing Company of Chicago.

Secretary Bartlett brought up the matter of the exchange of Liberty Bonds and upon action of the meeting, the following telegram was sent to the Treasury Department at Washington:

R. C. Leffingwell, Asst. Treasurer,  
U. S. Treasury Department,  
Washington, D. C.

Secretaries thirty state bankers' associations in conference assembled urge upon Treasury plan for exchange or conversion of Liberty Bonds by consignment—prior to payment—of reasonable amount to banks

based upon capital. We pledge cooperation in extending publicity and appreciation of banks in our states.

State Secretaries Section,  
American Bankers Association.

The matter of Banking Education was taken up and the great need of some form of textbook in the public schools which would practically bring to pupils the real purpose and intent of the banking business, was discussed. It was explained that at the meeting of the Executive Council of the American Bankers Association at White Sulphur Springs, a resolution was passed asking the State Secretaries in cooperation with the American Institute of Banking and Dr. P. P. Claxton, United States Commissioner of Education, to prepare a textbook on Elementary Banking and Finance suitable for use in the elementary and high schools and to secure its introduction into such schools of the United States, the object being to educate the public mind in banking and finance so that the people, as a whole, may approach banking problems with greater understanding. It was stated that a report, prepared by the Educational Director of the American Institute of Banking had been presented to the convention on behalf of the two sections, which had resulted in the appointment of a Committee on Education. On motion of Secretary Wait from Arkansas, unanimously carried, it was agreed that the Secretaries Section should request the incoming A. B. A. President, Mr. Hawes, to appoint one member of the Section on that Committee.

Vice-President Hawes made a short talk in which he touched upon the general labor situation and called attention to the necessity of urging the bankers to use their influence to eradicate Bolshevik tendencies.

Mr. John S. Drum, the Association's Second Vice-President, made a brief address, in which he lauded the Section for its work and said he considered it one of the important branches of the A. B. A. He spoke for a cohesive and unified banking system in order that this country may absorb the foreign credits which will have to be handled. He asked that all bankers study these problems in order that a satisfactory solution may be

reached, and advocated that the state convention programs include discussions of them by forceful bankers.

Col. Farnsworth favored the meeting with his presence and stated that it would be the last time he would appear before the Secretaries as General Secretary, as he had contracted with a new business organization in New York to serve as its president and had, therefore, decided to withdraw from the Secretaryship of the Association. He read a letter addressed to President Maddox stating that he had made a connection with the Bankers Statistics Corporation, and would therefore not be a candidate for re-election, but if the Executive Council deemed it necessary, he would serve for a short time until his successor could be selected. He expressed his regret at severing his connection with the A. B. A. and his association with the State Secretaries Section—as he was one of the founders of the organization of Secretaries and valued very highly the many friends he had in that organization (past and present) and he hoped that in the future the Secretaries would extend to him that glad hand of friendship, as they had done in the past. After feeling remarks made by several of the Secretaries present, the meeting extended a rising vote of thanks to Col. Farnsworth, tendering appreciation of his courtesy to the Section and its members and wishing him much success in his future undertakings, and expressing the desire that he avail himself of the privilege of meeting with the State Secretaries whenever he could do so as an Ex-Officio and Life Honorary Member of the Association.

The following resolution relative to thrift and endorsing the plan for a National Thrift Week set for January 17, 1920, was passed:

*"Whereas, The President of the United States has said 'Only by increasing production and by rigid economy and saving on the part of the people can we hope for a decrease in the burdensome cost of living,'*

*"Whereas, It is desirable that greater confidence be expressed by the public in financial and business institutions during times of unrest,*

*"Be It Resolved, By the State Secretaries Section that it heartily endorses the plan for National Thrift Week, set for January 17th, 1920, in which it is intended to bring home to the individual citizens*

of the United States and Canada the need for Thrift, the value of Life Insurance, of a Bank Account, of owning one's own home, of making a will, of home economics, as well as the moral obligation of paying one's debts.

*"Be It Further Resolved,* That the members of the State Secretaries Section cooperate with the NATIONAL COMMITTEE FOR THRIFT WEEK, in making this program the most effective and beneficial to the people of the Nation."

The following officers were elected: President, Robert E. Wait, Arkansas; First Vice-President, D. S. Kloss, Pennsylvania; Second Vice-President, Andrew Smith, Indiana; Secretary and Treasurer, M. A. Graettinger, Illinois. Board of Control: Robert E. Wait, Arkansas; D. S. Kloss, Pennsylvania; E. P. Gum, Oklahoma; W. C. Macfadden, North Dakota, and E. A. Havens, Rhode Island.

The generally expressed opinion was that the Section should hold only a one-day session at future conventions.

# OFFICERS AND COMMITTEES OF THE STATE BANK SECTION

AMERICAN BANKERS ASSOCIATION

1919-1920

Organized September 25, 1916

**PRESIDENT:**

**J. W. BUTLER,**

**Vice-President Texas Bank & Trust Company, Galveston, Texas**

**FIRST VICE-PRESIDENT:**

**E. C. McDOUGAL,**

**President Bank of Buffalo, Buffalo, New York.**

**CHAIRMAN EXECUTIVE COMMITTEE:**

**R. S. HECHT,**

**President Hibernia Bank & Trust Company, New Orleans, La.**

**SECRETARY:**

**GEORGE E. ALLEN,**

**5 Nassau Street, New York City.**

## EXECUTIVE COMMITTEE

### EX-OFFICIO:

- C. B. HAZLEWOOD, Vice-President Union Trust Company, Chicago, Ill.  
J. W. BUTLER, Vice-President Texas Bank & Trust Company, Galveston,  
Texas.  
E. C. McDOUGAL, President Bank of Buffalo, Buffalo, New York.

### (ONE-YEAR TERM)

- R. S. HECHT, President Hibernia Bank & Trust Company, New Orleans,  
La.

- GEORGE W. ROGERS, Vice-President American Bank of Commerce &  
Trust Company, Little Rock, Arkansas.

### (TWO-YEAR TERM)

- FRED COLLINS, Vice-President Bank of Commerce & Trust Company,  
Memphis, Tennessee.

- WALTER E. FREW, President Corn Exchange Bank, New York, N. Y.

### (THREE-YEAR TERM)

- H. A. McCAULEY, President Sapulpa State Bank, Sapulpa, Oklahoma.  
G. E. BOWERMAN, Vice-President Fremont County Bank, Sugar City  
(P. O. Capitol Building, Boise), Idaho.

## COMMITTEES

### STATE LEGISLATIVE COMMITTEE

- R. S. HECHT (Chairman), President Hibernia Bank & Trust Company,  
New Orleans, Louisiana.  
JOEL R. PARRISH, Cashier Farmers State Bank, Woods Cross, Utah.  
J. D. PHILLIPS, Vice-President and Cashier Green Valley Bank, Green  
Valley, Illinois.  
C. N. PROUTY, Cashier Exchange State Bank, Kansas City, Kansas.  
B. M. MARLIN, Secretary and Treasurer Union Banking & Trust Com-  
pany, Du Bois, Pennsylvania.

The other members of this committee are the State Vice-Presidents  
of the State Bank Section.

### FEDERAL LEGISLATIVE COMMITTEE

- C. B. HAZLEWOOD (Chairman), Vice-President Union Trust Company,  
Chicago, Illinois.



- J. H. PUELICHER**, President Marshall & Ilsley Bank, Milwaukee, Wis.  
**FRED COLLINS**, Vice-President Bank of Commerce & Trust Company,  
 Memphis, Tennessee.  
**E. D. HUXFORD**, President Cherokee State Bank, Cherokee, Iowa.  
**G. E. BOWERMAN**, Vice-President Fremont County Bank, Sugar City,  
 Idaho.

#### COMMITTEE ON PUBLIC RELATIONS

- E. C. McDUGAL** (Chairman), President Bank of Buffalo, Buffalo, New  
 York.  
**D. M. ARMSTRONG**, Vice-President Commercial Trust & Savings Bank,  
 Memphis, Tennessee.  
**C. R. MILLER**, President Farmers Bank, Wilmington, Delaware.  
**W. C. GORDON**, Cashier Farmers Savings Bank, Marshall, Missouri.  
**L. S. COVINGTON**, Vice-President Farmers Bank, Rockingham, North  
 Carolina.

#### CONFERENCE COMMITTEE

This committee consists of three members appointed by the State  
 Bank Section, three members appointed by the Trust Company Section  
 and three members appointed by the Savings Bank Section. The mem-  
 bers of this committee appointed to represent the State Bank Section  
 are:

- J. H. PUELICHER**, President Marshall & Ilsley Bank, Milwaukee, Wis.  
**FRED COLLINS**, Vice-President Bank of Commerce & Trust Company,  
 Memphis.  
**E. D. HUXFORD**, President Cherokee State Bank, Cherokee, Iowa.

#### MEMBERSHIP COMMITTEE

- H. A. McCAULEY** (Chairman), President Sapulpa State Bank, Sapulpa,  
 Oklahoma.

The other members of this committee are the State Vice-Presidents  
 of the Section.

#### STATE VICE-PRESIDENTS

1919-1920

- ALABAMA**: **C. E. Thomas**, President Autauga Bank & Trust Company,  
 Prattville.  
**ARIZONA**: **H. T. Esgate**, Assistant Cashier Valley Bank, Phoenix.  
**ARKANSAS**: **T. A. Monroe**, Cashier Peoples Bank, Magnolia.  
**CALIFORNIA**: **Will E. Morris**, Cashier Farmers & Merchants Bank,  
 Stockton.  
**COLORADO**: **W. F. Boyd**, Cashier Saguache County Bank, Saguache.  
**CONNECTICUT**: **Frank B. Frisbie**, President Mechanics Bank, New Haven.  
**DELAWARE**: **E. V. Baker**, Cashier Selbyville Bank, Selbyville.  
**DISTRICT OF COLUMBIA**: **E. E. Herrell**, Cashier Merchants Bank, Wash-  
 ington.

**FLORIDA:** Dr. D. A. McKinnon, President Citizens State Bank, Mari-  
anna.

**GEORGIA:** William Murphey, Vice-President Citizens & Southern Bank,  
Savannah.

**IDAHO:** G. C. Painter, Cashier State Bank of Middleton, Middleton.

**ILLINOIS:** C. C. Wolaver, Cashier Dundee State Bank, Dundee.

**INDIANA:** John R. Millikan, Assistant Cashier Citizens State Bank,  
New Castle.

**IOWA:** H. M. Carpenter, President Monticello State Bank, Monticello.

**KANSAS:** J. D. Zimmerman, Cashier Farmers State Bank, Sterling.

**KENTUCKY:** John Altscheler, President Farmers Deposit Bank, Horse  
Cave.

**LOUISIANA:** R. H. Miller, Cashier Bank of Minden, Minden.

**MAINE:** Geo. A. Safford, Treasurer Hallowell Trust & Banking Company,  
Hallowell.

**MARYLAND:** A. H. Halloway, Cashier Farmers & Merchants Bank,  
Salisbury.

**MASSACHUSETTS:** Edward B. Carney, Treasurer Lowell Institute for  
Savings, Lowell.

**MICHIGAN:** Gilbert L. Taylor, Cashier Citizens Savings Bank, Owosso.

**MINNESOTA:** F. A. Gross, President North American Bank, Minneapolis.

**MISSISSIPPI:** W. T. Winston, President Cotton Exchange Bank, Cleve-  
land.

**MISSOURI:** Dale S. Flowers, Cashier Gentry County Bank, Albany.

**MONTANA:** B. M. Harris, Cashier Park City State Bank, Park City.

**NEBRASKA:** W. H. McDonald, Vice-President and Cashier McDonald  
State Bank, North Platte.

**NEVADA:** John Henderson, President Henderson Banking Company,  
Elko.

**NEW HAMPSHIRE:** George W. Fowler, Treasurer Suncook Trust Com-  
pany, Suncook.

**NEW JERSEY:** A. C. Stephany, Second Vice-President Egg Harbor Com-  
mercial Bank, Egg Harbor.

**NEW MEXICO:** Fred Mielenz, President Dexter State Bank, Dexter.

**NEW YORK:** F. E. Johnson, Cashier Bank of Cattaraugus, Cattaraugus.

**NORTH CAROLINA:** H. D. Bateman, Cashier Branch Banking & Trust  
Company, Wilson.

**NORTH DAKOTA:** George H. Russ, Jr., Vice-President Bismarck Bank,  
Bismarck.

**OHIO:** S. J. Brister, Cashier State Savings Bank Company, Dover.

**OKLAHOMA:** P. W. Samuel, President First State Bank, Vinita.

**OREGON:** J. W. Siemens, President First State & Savings Bank, Klamath  
Falls.

**PENNSYLVANIA:** E. S. Gardner, President Middle City Bank, Philadel-  
phia.

**RHODE ISLAND:** William C. Angell, Cashier Westminster Bank, Provi-  
dence.

**SOUTH CAROLINA:** H. A. Calhoun, President Home Bank, Barnwell.

**SOUTH DAKOTA:** H. E. Edmunds, Cashier American State Bank, Yankton.

**TENNESSEE:** J. M. Clark, Cashier Bank of Blount County, Maryville.

**TEXAS:** Tom Rodgers, President Denison Bank & Trust Company, Denison.

**UTAH:** A. P. Bigelow, Cashier Ogden State Bank, Ogden.

**VERMONT:** C. S. Webster, Treasurer Barton Savings Bank & Trust Co., Barton.

**VIRGINIA:** W. B. Vest, President Citizens & Marine Bank, Newport News.

**WASHINGTON:** O. A. Fiechter, President Yakima Valley Bank, Yakima.

**WEST VIRGINIA:** Charles R. Lowe, Cashier Bank of McMechen, McMechen.

**WISCONSIN:** Lewis Larsen, President Island City State Bank, Cumberland.

**WYOMING:** W. F. Leslie, Cashier Peoples Bank, Moorcroft.

# PROCEEDINGS OF THE THIRD ANNUAL MEETING STATE BANK SECTION

## AMERICAN BANKERS ASSOCIATION

At St. Louis, Mo.

SEPTEMBER 29 TO OCTOBER 1, 1919

The convention of the State Bank Section of the American Bankers Association at St. Louis, September 29 and 30 and October 1, was a celebration of accomplishments. The adoption by the Association of the amendments to the Association Constitution authorizing independent action by Sections on legislative matters was a source of general satisfaction, and the practical union of the State Bank Section and the United States Council of State Banking Associations evidenced a spirit of unity that promises to be enduring. The first two sessions of the State Bank Section were held in the Shubert-Jefferson Theatre, and the third session, in which members of other sections participated, was held in the ballroom of the Statler Hotel.

### FIRST SESSION

Monday Afternoon, September 29

The first general meeting of the State Bank Section was called to order by President Craig B. Hazlewood at 2 o'clock Monday afternoon, September 29. An impressive invocation was made by the Reverend John W. MacIvor, D. D., Pastor of the Second Presbyterian Church of St. Louis. President Hazlewood then delivered the annual address of the President as follows.

## ADDRESS OF THE PRESIDENT

CRAIG B. HAZLEWOOD

As bankers we have some very serious responsibilities to face during the coming year, the most important of which is to keep the financial boat steady. In my opinion this will be no easy task. Economists agree that the setback, the waste and the absolute losses of the war can only be compensated for by the universal practice of thrift—individual thrift, national thrift and world thrift.

In an address before the West Virginia Bankers Association two weeks ago Governor Harding said, "The most effective remedy for the present conditions, whether viewed from the economic or financial standpoint, is to work and save." Millions of American people are doing neither at the present time. Besides the steel strike with its far-reaching consequences there are literally thousands of strikes going on in the country today and in almost every line of industry. Besides the loss of productive labor there is the loss of added consumption of those idle. Economy and thrift, from the standpoint of personal expenditures, generally speaking, do not exist. Among the middle classes luxuries are in great demand and among the rich excessive income and profit taxes have caused involuntary increases in personal expenditures. It may be said, on the other hand, that bank deposits, including savings deposits, and bank clearings, have increased, and that this is a favorable sign. It does indicate prosperity, but it must be borne in mind that bank deposits represent credit and not cash, and are the credit equivalent or the measure of value of goods. Your bank's customer who buys shoes from the wholesaler pays twice as much as he did before for the same number of shoes, and your loans to him are increased in proportion. The wholesaler in the city banks the check received in payment, which is twice as large as for the same number of shoes, and the city banks' deposits are increased in proportion. It would be impossible, of course, to say how much bank deposits and loans are increased by this process, and how much by the natural increment of thrift, and the increase in margin between production and consumption; but that the former cause has been responsible for a great part of the increase, there can be no doubt.

The tremendous advantage which the United States possessed at the end of the war and its finely developed commercial and manufacturing facilities as compared with the European countries, whose resources and man power were infinitely more impaired, led us naturally to believe that tremendous foreign trade is in prospect. This was realized during the first part of the year to such an enormous extent that the balance of trade, which was heretofore on the debit side for us, rolled up to a tremendous credit. As a result a sharp break of exchange rates was inevitable, and our exports, from which we anticipated great

profits, have necessarily been greatly reduced in the last sixty or ninety days. The European countries have a most urgent need for our commodities but not to the extent that they can afford to pay a premium of 15 per cent. to 100 per cent. for exchange in addition to our cost and profit.

I believe, gentlemen, that our present economic and financial position is fraught with danger, and I would be somewhat pessimistic did I not have confidence in the resourcefulness of the American people, confidence in the sound condition of our banks, both national and state, and confidence in the proven ability of the Federal reserve banking system to take up the slack or to absorb the shock of a great financial reaction.

I think you will agree that there will never be another currency panic. The power to issue Federal reserve currency, secured by 40 per cent. of commercial paper, with a 60 per cent. cover of gold, which enabled us to expand our volume of Federal reserve notes outstanding from \$357,239,000 on April 1, 1917, to \$2,504,753,000 on August 1, 1919, undoubtedly prevented such a catastrophe during the war period.

Under the old system with a government and national bank currency definitely limited by law we would most certainly have had to resort to the issue of script and clearing house certificates, as we have done before. With the gradual absorption for fixed investment of government securities and the substantial increase to surplus accounts of the Federal reserve banks from earnings, the system's available resources will be considerably increased. Every dollar added to these resources is an additional protection against the consequences of a sudden credit deflation or panic.

It is perfectly safe to say that the banks in our country of all classes are in better condition than ever before. Our bank assets are more clean and more readily convertible than ever before. Banking laws are being constantly improved in every state, and methods of bank supervision and examination are more and more intelligent, and failures of state banks have been, remarkably few. The state bankers can very well afford to compliment the national banks, the Comptroller of the Currency and the examining force, and more particularly the national bankers themselves, regarding their record in this respect. Our banks are in fine condition and well prepared to meet any emergency that may arise.

There are indications that the situation with regard to labor troubles may have reached its worst phase and that we are now in a fair way to improve. It appears that public sentiment is undergoing a change and that the unwarranted breaking of labor contracts is subject to criticism by the conservative labor element. We have observed in the

last thirty days that members of Congress and Senate dared to express themselves frankly on this matter.

Under all these circumstances it is very possible that we can work out of our difficulties and save ourselves from the very bad situation in which some of the European countries are now. The bankers of the country have demonstrated more than once their knowledge of their moral and financial responsibility.

I want to remind you that as bankers we are in a pretty fortunate position. We are not being investigated, threatened or legislated against, and we do not have to contend with strikes or lockouts. Under these circumstances we are free to go along about our business, watching our assets, increasing our liabilities, and paying a reasonable return to our stockholders. We make mistakes aplenty, but in one particular we have used the best possible judgment during all the war period. We have not treated the public unfairly, been guilty of unfair trade practice, nor of profiteering in any sense of the word. Money has been and is the cheapest commodity one can buy, and bank credit is as free and available for worthy purposes now as it has ever been. Any sound business venture can be financed.

During the war period state banks were invited and urged to join the Federal reserve system in order to strengthen the country's financial position. To date state banks own \$8,139,460,111 of Federal reserve bank resources. 1,085 state banks are now members of the system.

A committee of the American Bankers Association of which the first president of this Section, Mr. John H. Puelicher, was chairman is credited by those who know the facts with a very large share of the results in inducing state banks to join while the war was on. Since September of 1918, however, the patriotic reason for joining has been removed.

While the state banks that have become members have not the advantage of the daily suggestions, constant correspondence and affectionate relationship with the Comptroller of the Currency, which is enjoyed by our national bank friends, we have nevertheless found many practical and profitable advantages in belonging to the system, and at the same time retain those powers and privileges which are granted by the laws of the state. Joining the Federal reserve system is now a matter to be decided purely on the basis of business policy, and I have yet to find a member state banker, whose business is largely commercial and whose demand is variable, who would be willing to abandon his membership.

One way to make money in the Federal reserve system, to which I invite the attention of those of you who are eligible non-members, is the possibility of reducing cash means and increasing loans, having the assurance behind you that you can use your government securities and your eligible paper to replenish your reserves if you need to do so.

Deposit in the Federal reserve bank a part of the gold and legal tender reserve you have been carrying in your bank for years and which has been counted over and over by your officers and examiners and rarely, if ever, actually used. A supply of this kind of money can be had for the asking at the Federal reserve bank. Close some of the accounts you have kept with other banks in order to get cash items or to pay for roundabout collection of transit items. Use the collection system of the Federal reserve system for everything they can handle. Abandon the obsolete par list arrangements you have had with many correspondents and make one or two take all of your non-collectible transit items on a compensating balance arrangement at par. A smart city banker can show you distinct advantage in this and various special ways to justify your retaining, at least, one account in his city for these purposes. If you have surplus funds above your collection requirements which you want to carry in balance put them on a short notice basis at a higher rate. Reduce your total cash means 3 per cent., 4 per cent. or 5 per cent. and loan this much additional to your customers or buy commercial paper with it. Every dollar which you can take out of your cash means at 2 per cent.,  $2\frac{1}{4}$  per cent. or no return will bring you 6 per cent at home.

I have talked with a great many bankers on this subject of joining the Federal reserve system and have formed the impression that many are inclined to consider the matter with a slight prejudice which may have been incurred when the advocates of the system were crowding them pretty hard on the score of their patriotic duty when their consciences were quite clear on this point. I believe and I am sure you will agree that those bankers would be making a mistake of judgment if they did not now consider the matter with this prejudice aside and purely from the standpoint of the best interests of their bank and their community.

I desire to give you briefly the high lights in the year's work of the State Bank Section. Following the convention at Chicago a meeting was called of the Executive Committee and Chairmen of the standing committees in New York in November. The purpose was to determine the lines of activity for the new year. It was decided to send to all the members a questionnaire in order to determine what appeared to be the subjects of greatest interest in their minds. The response was very gratifying and many of the replies received have been published in our part of the Journal of the American Bankers Association. The subjects which appeared to be of the greatest interest will be presented to you during your sessions at this convention. The more important of these are the subjects of State Banking Laws, Trust Powers for State Banks, Bank Advertising and Exchange. We selected speakers that we believed were best available to present these subjects to you and we feel confident that you will find much of



interest in what they say and in the general discussions which we hope will follow.

The American Bankers Association is composed of both national and state chartered banks, but the majority of offices have been filled and policies determined by representatives of national banking institutions. There have been very good reasons for this condition. Up to a few years ago under the old reserve system the national bankers were principally interested in securing reserve accounts.

Furthermore, legislative matters taken up in the big Association were of primary interest to national bankers and of little concern to state bankers. In the last year or two, however, the situation has materially changed and state bankers are interested, vitally interested, in Federal legislation, both as it relates to the Federal reserve system, and also to such matters as trust powers, government financing and foreign exchange. As a result the state bank, trust company and savings bank men are taking a much more active part in the proceedings of the Association and are demanding larger and more important representation in the Association's activities.

At last year's convention in Chicago two things happened which are of importance in this connection:

First, a new office was created, that of Second Vice-President, to which was elected a man representing a state chartered bank. I predict, gentlemen, that when Mr. John S. Drum of San Francisco is President of the Association you will find him to be one of the smartest and ablest men of a long list of smart and able men who have filled that position and which includes the present incumbent.

Second, it was provided that representation on the Federal and State Legislative Councils and Committees be divided more evenly than formerly and that the Chairman of the State Legislative Council should be a state banker.

With these changes effected complete harmony prevailed and as one national banker friend of mine put it, he felt harmony was the next best thing to having it all his own way.

If the state bankers do not obtain a fair share of representation it is their own fault. Next year it will be again up to the state bankers to start a man in the chairs of the Association and it is not too early to think who that man should be. We must keep the standard high.

Two years ago a new organization of state bankers was launched at St. Louis called "The United States Council of State Banking Institutions." The gentlemen who started this movement put forward a criticism of the American Bankers Association which, I think, was and is just, though not to the extent that a new organization of bankers was necessary or desirable. This criticism was that under the Constitution any Section of the Association is estopped from independently

urging or opposing any legislation which applies particularly to its interests.

I am very happy to say to you that at the May meeting of the Executive Council of the American Bankers Association a conference was held between representatives of the State Council organization, including its President, and of the state chartered sections of the American Bankers Association, as a result of which the State Council's officers and Executive Committee will recommend the abandonment of that organization and uniting effort through the American Bankers Association, providing that the main body of this convention will approve a constitutional amendment which will allow each Section of the Association entirely independent action on any legislative matter if taken in the name and at the expense of that Section. The amendment has the approval and recommendation of the Administrative and Executive Councils of the Association and is a democratic measure. There are no dangers in its application, for if any Section chooses to go it alone on any matter which might conflict with the interests of any other Section, that other Section may be depended upon to present its case as well.

The three Sections in the Association representing state chartered banks, the Trust Company, Savings Bank and State Bank Sections have much in common in legislative matters. The Executive Committees of these three Sections were of the opinion that efficiency could be obtained by the formation of a Conference Committee composed of representatives from each of these three Sections.

During the first part of the year the secretaries and committees of each of the three Sections named and the secretaries and committees of the United States Council organization were all active in Washington in relation to legislation affecting state chartered banks. Many of the matters presented were identical and it was mildly intimated by members of the Federal reserve system and others that time and effort could be saved for all concerned if on matters of joint interest one committee or representative handled it. A need for such a Conference Committee seemed apparent therefore to the representatives of the various Sections and the United States Council organization and it was organized.

Three representatives were elected from each Section and Mr. W. H. Booth of the Guaranty Trust Company of New York, selected by the Trust Company Section as one of its three representatives, was made Chairman of the Conference Committee. He will report to you regarding the activities of the Conference Committee and I am sure you will be impressed with his keen and comprehensive knowledge of banking legislation as it affects state banks.

Representatives elected from the State Bank Section were John H. Puelicher of Milwaukee, who was also elected Vice-Chairman of the

Conference Committee, E. D. Huxford of Cherokee, Iowa, and Fred Collins of Memphis, Tenn.

The action creating this Conference Committee is, of course, tentative and subject to your approval and to the passage of the necessary amendments to the Constitution of the three Sections, which will be presented to you in the regular course. I ask your support of this piece of machinery which will enable state chartered banks of the country to concentrate their fire, so to speak, on any legislative or administrative body in behalf of a clear majority of the state chartered banks of the country.

The State Bank Section now has 9,386 voting members and 1,240 associate members. Previous to the organization of the State Bank Section a number of state banks were voting members of other Sections and many of them are still so classified. It is not the policy of the State Bank Section to do any proselyting to increase its own membership, and it only accepts voting members previously enrolled in other Sections upon the written request of institutions that wish to be thus transferred.

The State Bank Section is inspired by the spirit of democracy and co-operation and particularly represents the thousands of country banks that constitute the majority of its membership. Coincident with the existence of the State Bank Section, and perhaps partially on account of it, the sentiment of state bankers has become unified, and the rights of state bankers are becoming better recognized.

The fact is becoming apparent that the interests of the country banks of the United States are so interwoven with the interests of the communities which they serve that any banking custom or any banking law that benefits or injures country banks affects in like manner the millions of rural Americans who constitute the backbone of the nation.

Reports of Committees were then received as follows:

## FEDERAL LEGISLATIVE COMMITTEE

J. H. PUELICHER, Chairman

It is a great pleasure to meet again. Now that we all have our sons back at home with us, we can discuss our problems from an altogether different angle than it was possible to discuss them at the convention last year and the year before. The report of the Federal Legislative Committee as it affects the state banks is of necessity a difficult one to make because it is so largely negative. The great performance of the State Bank Section was the aid that it was able to give the members of the Federal Reserve Board in passing

the amendments to the Federal Reserve Act. That was done the first year of the existence of this Section and it was a remarkable piece of work, for without it and the consequent joining to the Federal reserve system of the state banks of the country, the United States would have found difficulty in financing the war. Since that time the duties of the Federal Legislative Committee have been simply watching legislation which might adversely affect state banks, and I know of none that have been passed. As Chairman of the Committee that completes my report. Might I, though, while I have the floor say just a word more in regard to what has been done by our President and our Secretary. I should like the members of the State Bank Section to recognize and appreciate thoroughly the fine piece of diplomatic work which was done by these two gentlemen in bringing together in a conference committee all the financial institutions of the country that operate under state charter. I should like to say just one word more with your permission. I don't believe that there has been a time in the history of this generation, I mean our generation when sane, sound thinking leadership was more needed in this country than it is needed today. Last year we were fighting a common enemy and we stood shoulder to shoulder to preserve to the world certain rights that we regard as inalienable. Today, the strife is in our own ranks. Unrest would naturally follow world's war, but that unrest brings in our country disturbances which reach into our social structure and the banker who deals with all classes, who is the counsellor, and the advisor of the laboring man, who is the counsellor and the advisor of the farmer, who is the counsellor of the manufacturer, must be the man who does the sound fundamental thinking so that the institution that our sons went to war to preserve may not be disturbed from within, and I call upon you, fellow state bankers to go back to your communities and to exert that conservative leadership for which you have become renowned so that our United States may continue to be our United States.

## STATE LEGISLATIVE COMMITTEE

E. C. McDUGAL, Chairman

Your committee has reports from eighteen states. In two states the legislatures held no meeting this year. In a number of states important legislation passed, among which were bills giving state banks fiduciary powers, providing fine and imprisonment for the purpose of procuring credit, limiting to actual proven damages the liabilities of banks which erroneously may refuse payment on good checks and others, the details of which will be found in the annual report of Thomas B. Paton, General Counsel of the A. B. A., in the reports of the

various state secretaries to their respective state associations, and in the monthly bulletins of the Federal Reserve Board. Your committee feels that its best work can be done in co-operating with the Committee on State Legislation of the American Bankers Association in its efforts to secure the passage of uniform laws whereon possible and practicable.

## MEMBERSHIP COMMITTEE

J. W. BUTLER, Chairman

I want to pay a tribute to our worthy President, and to give him credit for this magnificent work he has done and also to give due credit to our worthy secretary, who has been so faithful, and to show my appreciation of the magnificent work done by Mr. Puelicher, Chairman of the Federal Legislative Committee and in his work in bringing closer together and uniting the state banks of the country and tying them to the Federal reserve system. Great things lead and we have occasion to congratulate ourselves with this leadership. I feel right now the State Bank Section is established. A story comes to me of a new town out in Tennessee, a little town that was to have a new railroad and the railroad was to come into the town by the old cemetery, and they dressed up the cemetery with a new enclosure and decided to put an arch over the gate, and the little village met and decided on what language the word should be put on the arch because it would be the first thing that would be seen by the newcomer or the passerby on the new train. It should bring a message that would pull to the investors or the prospectors and at the same time it should be something appropriate to the cemetery. And so the town met in the village court house and the President of the new Chamber of Commerce was there and the boosters, town boosters, and the new enterprise arising, and the new spirit, and so it was asked what should we put on this name plate. One gentleman ventured to suggest that we put on the word "Welcome." Another said that would not do for a cemetery. Oh, that is right, and so the meeting broke up, and they decided to meet the next evening and decide on the problem, if possible. And a gentleman brought this, I think we better write on the arch, "City of the Dead." Well, the real estate agents objected, Oh, no, that would not do for this enterprising ambitious place, and the meeting was about to break up in disorder and hopelessness, when an old Irishman who had come to work on the new railroad, arose and said, "I will furnish a solution, I think we might write on the arch, 'We are here to stay.'" That gentleman is the application to the State Bank Section. Through the excellent diplomacy and some sleepless nights, and days of thought and toil and these gentlemen have brought us to this place where the state banks of the country have their

proper and just recognition in our great organization, and we are founded on a broad foundation of justice and service, and so we are followed. We have been organized and we have begun under the most favorable auspices, and so I bring today this word of my deep appreciation of the men who have brought us to this good day. The report of the membership committee when we began last September, the bankers were responding to numerous calls of war work and were very busy, and yet they undertook in these several states to lead the campaign for membership. I wish to thank the Vice-Presidents of the various states on their splendid work and the result is from this excellent team work of the Vice-Presidents and their co-operation we have had an opportunity in bringing the membership of the American Bankers Association to over 20,000.

## COMMITTEE ON FORMS

R. S. HECHT, Chairman

The members of the State Bank Section Committee on Forms have been in correspondence with one another during the past year but have not held any meeting. The Committee, constituted as it is of busy bankers located in different parts of the country, appreciates the difficulty, if not the impossibility, of accomplishing much under such circumstances, and recommends that the subject of forms be referred to the Section Secretary, with instructions to co-operate with the Secretaries of other Sections in such manner as may be mutually satisfactory and expedient.

The foregoing reports were received and the recommendations therein conformed were adopted.

PRESIDENT HAZLEWOOD: Mr. Andrew Russell is state auditor of Illinois. We regard him out there as a sort of Abraham Lincoln and he is a man who, as state auditor, is in very close touch with his member banks and a man whom we member banks have a great deal of confidence in. I take great pleasure in introducing Mr. Russell to you.

## TRUST POWERS FOR STATE BANKS

ANDREW RUSSELL

The name trust company given to an association of pecuniary trust or to a fiduciary corporation was early adopted in the several states. Such associations were organized and given practically perpetual

charters for the purpose of caring for things financial, such as guardianships for minor heirs, the coming executors, administrators or trustees of estates, or conservators of people under the instructions of a will or of the court or of those of efficient mind, and for the purpose of becoming an assignee, agent, receiver, or trustees of individuals or corporations, or for taking charge of such other financial matters as are outside of the regular banking field. The relationship of the trust company to its clientele is necessarily closer, or should be closer, and of a more confidential nature than that between the bank and its customers as the trust company not only acts for its clients as an advisor, but also carries on the different transactions as if they were its very own.

Each state has its own individual laws regarding trusteeships, administratorships, executorships, guardianships, and so forth, that in the main correspond with such laws in other states but this has never been considered a national matter requiring national legislation on account of a feeling of the people in each commonwealth that they should have the say-so in their local affairs. Such being the case what could be more natural than they should wish their trusteeships, etc., to be placed in the hands of their own state banks, which are governed by their own state laws, when these institutions are willing to comply with the trust laws of their respective states by accepting the trust and depositing securities with the proper state authorities? They thus make the trust funds doubly secure, as these institutions are under the constant and watchful supervision of the state authorities who hold the institution securities for the protection of their trust. The right of national banks to do this class of business has been taken up with the courts in Illinois and other states, and a case in Michigan was appealed to the United States Supreme Court (I refer to the decision of the Supreme Court in the Trust Company decision) which held that this class of institution would compete with state banks and could operate trust companies by complying with the state laws. Several letters have been sent out to the state authorities by the United States Comptroller's department, telling them, the state authorities, that only the trust department of the national banks can be examined by them. By the reading of the Illinois law, you will, I believe, be convinced that any bank doing a trust business subjects itself to examination by state authorities. State banks or trust companies becoming members of the Federal reserve system must comply with laws governing the whole United States banking system,—why should not national banks operating under state laws be subject to state laws? When a state bank has a trust department, the whole bank is examined. Why? Because it is not just the trust department that makes the trust good, but the standing of the entire institution. The same practice should govern in national banks. Be that as it

may, the fact remains that those having trusts to place would rather place them in the hands of a chartered institution whose charter is almost perpetual (I take it for granted you all know that most of the state banks and trust companies have charters granted for ninety-nine and some of them have nine hundred and ninety-nine-year permits) than in one which has not a chance to get its charter renewed even at the end of twenty years, unless it has complied with the Comptroller's office rule. I ask you which is the more practical institution to do a trust business? It seems but natural that those interested in creating a trust would choose the state institution. The remarks are not meant as a criticism of national or Federal banks, simply that these banking associations were organized to do commercial business, and when they step into state matters, they might do worse than go the whole length and become state banks. Most state banks have good laws governing things financial and their laws, in the main, are uniform. Is it not more reasonable that a man should place his confidence in a system whose head is near at home, and therefore more get-at-able than in one where the authority is a thousand miles away and knows little of individual state affairs? Before a bank can act in a fiduciary capacity in the State of Illinois it must do certain things, amongst them make the required deposit and receive from the Auditor of Public Accounts a certificate of authority, and no state bank can act in the capacity of trustee, executor, guardian, etc., until it has received authority as above stated. Under the general incorporation laws of Illinois, through the Secretary of State, a corporation can be formed to do a trust company business. However, such company cannot accept and execute trusts or act in a fiduciary capacity until it has received authority as above stated. Nor can it execute trusts or act in a fiduciary capacity until it has complied with the trust company law, made a deposit of security with the auditor or public accountant and received a certificate the same as a state bank. Foreign corporations may also qualify as trust companies by complying with the foreign corporation laws of Illinois, through the office of the Secretary of State, and qualifying under the Trust Company Act, the same as state banks or associations under the general incorporation act. Of the nine hundred and forty state banks in Illinois, ninety have qualified under the Trust Company Act and made the required deposit with the Auditor's department. Three companies under the general incorporation law and seventeen foreign banks,—that is banks in other states—are also operated under this Act. In addition to these, the department has issued to eighteen national banks, trust certificates granting them trust company powers in Illinois. The aggregate amount of securities deposited with the Auditor of Public Accounts by various trust companies is \$15,000,000. In Illinois—pardon me for again referring to my own state with whose laws I



am reasonably familiar,—trust companies do a trust business and a banking business, but in many states they do all kinds of business, such as renting, insurance, real estate, etc. Will not the day come when national banks will feel called on to do such varied businesses which, in my opinion, have no connection with banks? Why not? According to the decisions of the Supreme Court above referred to national banks may do a trust business because state banks and trust companies do a commercial business. National banks are now doing many different kinds of business,—more than the law creating them ever contemplated. Did you ever hear of the sailor who landed from ship in Liverpool and went to a livery stable and asked the proprietor to hire him a horse with a long back? "Why do you want a horse with a long back?" the proprietor queried. The answer was, "because there are nine of us who wish to take a horseback ride." The national law has been stretched to the ninth point. Has it been weakened by this stretching process, and how much farther will it go? The natural conclusions to all this is—why do state banks, instead of other organizations, take on trust powers? The reason is self-evident. They have perpetual charters and under good management would be perpetual. Aside from this they are growing institutions and by this I mean no new organizations would have to be formed to take over a trust business, and we all know that the trust company department of a state bank is of slow growth. It starts with nothing, but ultimately develops into a big part of the institution. In addition to this the people feel that a state bank is their bank and it is only natural for them to want to transact their financial matters with the institution that they feel belongs to their section. The day is coming when estates and trusts of all sorts and kinds will—almost all—be administered by corporations authorized to execute such business. Human beings die, but associations with almost perpetual charters continue to live. My advice—take it for what it is worth—to all state banking institutions doing business in cities of 10,000 and upward population is, that you should put in trust departments. It will cost you little as the machinery is already there and your securities, deposited with the proper state authorities,—in Illinois he is the State Auditor,—in compliance with law, will still be yours. Always remember this: the growth of your trust department will be slow, but it will be sure and in the meantime it is costing you but little in time or money. Take on a trust department now and you will by so doing, be helping your bank into a broader and wider field of usefulness.

PRESIDENT HAZLEWOOD: That is a very interesting subject. It appears from the replies that we have received from Washington, of which I spoke of a moment ago, that this matter of according fiduciary powers to the state banks is one of very

common interest. A great many state banks in many of these cities have trust powers. We would like to hear from some of you, where fiduciary powers are vested in state banks in your state, and would also like to hear from some of you where such powers are denied to state banks under the law. I believe we could get interesting views on the subject. If Mr. H. A. McCauley of Sulpulpa, Oklahoma, is here, I would like to hear from him. Mr. McCauley represents a state where trust powers are not rendered the national banks. He is a state banker in Salpulpa, and is interested in a number of other banks in Oklahoma, and a man of considerable influence and force in his territory.

MR. H. A. MCCAULEY (Salpulpa, Oklahoma):

We may safely say that department banking has "arrived." It is here to remain, its success has so far exceeded the older and more conservative method of handling banking business that its extension to broader fields is now engaging the attention of our law-making bodies in the states and in Congress. The success of trust powers associated with our large state banks has been so marked that our large national banks are seeking to acquire these powers, and in fact, must necessarily have them in order to round out their facilities and enable them to compete upon an equality with large state banks.

It seems to have been taken as an accepted fact that the day in which a trust company can hope to build extensively as in the past without state or national bank accompaniment is gone. A new and experimental era has taken hold of financial institutions and if competition is carried to extremes, as it may be, it is fair to assume that even country banks may come to acquire trust powers. Not the smaller country banks, but those state banks which are sufficiently capitalized to act as approved reserve agents for other state banks. The very scope of trust powers, allied with state banks, is such as to round out and enlarge a state bank that can command sufficient fiduciary business to warrant the installation of trust company privileges.

A writer in the American Bankers Association Journal has recently described trust company service in these words: "The trust company maintains a most complete service designed to benefit the financial requirement or convenience of everyone at every corner of human affairs throughout the span of life from the cradle to the grave and even beyond. It begins with the baby's savings account and serves through the formative years, young married life, business career, and years of retiring enjoyment; in emergency it can become husband to the

widow, mother or father to the child, caretaker for the absent one and assistant to the busy one." Truly the virtues of the trust company powers are many. Why not annex them as state bank adjuncts wherever and whenever it can be done?

It is freely predicted already that those National banks which are now adding trust powers by permission and through the medium of the Federal Reserve Board will shortly find that there is not sufficient elasticity or compatibility between state and national laws to permit of an easy affiliation of the two, and that those national banks will shortly take out state charters for their trust departments in order to more easily comply with state laws and to avoid the inevitable conflict that seems sure to follow national and state laws applied to the administration of the same business. But we may not yet have come to the crux of this subject. How many state banks acquire with the same avidity as national banks, trust powers? The State Bank Section has been referred to as the great mongrel entity of the American Bankers Association. The National Bank, Savings Bank, Trust Company and Clearing House Sections meet here under a more or less semblance of uniform laws and regulations. State bankers from every state in the union meet here, each the champion of his own state banking system, each different from the other,—systems galore without conformity or compatibility. In the broad plains of the Central West the guaranty of deposits law springs eternal and flourishes forever more along the Mississippi Valley; private banking under the protection of state laws and in open competition with state-chartered banks has flourished, bloomed, withered, and is perhaps passing, while along the Eastern front there thrives under least resistance and with resilient ease the most staid and the most successful state banking system with perhaps the least regulation of any. From the Northwest there is now budding still another form of state banking, the complexity of which has not yet unfolded, but which promises a cure for all the ill and panacea for every aid common to state banks. Can we hope for trust powers for all these, some of which now enjoy them, others of which may acquire them, and many of which are prohibited by law or associated with trust powers?

There is an answer to this which is almost impossible to imagine, and that is the revamping of the laws of all states to such an extent as to permit of easy conformity to each other. If the trust power is such an added asset, if it possesses so much that is desirable and necessary to fully complete the service to be rendered by the greater banks of the future, then, from a mongrel entity, there must be born a system of magnitude of government that will permit of state banks annexing such adjuncts with the same facility and the same readiness as do national banks. State banking power now represents by far more than

half the balance of power, and it seems evident that if this is maintained for long, it will be done by those far-seeing and powerful of this Section who will bring about uniformity and conformity, adjust differences, and make possible the greater usefulness of state banks.

Experience has taught the larger state banks that trust powers are essential to their larger usefulness. How far is it practicable to carry it? To what extent may it successfully be applied? The answer can best be made by those who are most experienced. It is, to say the least, more practicable for state banks than for national.

We should avail ourselves of every source of new business, every source of profit and, if we can be more useful, why not preserve the state bank's trust powers? Now, effective legislation that may insure these powers to state banks present a question of the gravest importance. We can have too much regulation. By that I mean, we can have it to the point where it becomes pernicious, offensive, and ineffective of good results. State banks enjoy the most liberal regulation of any banks; they radiate a broad and liberal spirit to encompass operations of every line of commercial business. They owe their prosperity and their balance of power perhaps more to these privileges than anything else. Should new regulations or new alliances be made that will take from state banks these broad powers or eliminate them as to detract from their greater usefulness? I plead guilty to being a disciple of old-style banking in so far as these principles apply to present-day need. There has crept into the minds of those who now have to do with the new order of things, that only the big things are really worth while. The little fellow feels that he is being relegated further to the rear, that his prerogatives are no longer recognized, in fact, are being taken from him, and that there is evidence to show that conditions for him will become more intolerable, that the steam roller may be employed to bring about his complete subjugation to iron rule. If this is carried out, as it seems now is planned, presently there may be that unified banking system ruled by an "autocrat," and we will have acquired some of the late Kaiser's hellish kultur, the effect of which may be to destroy or limit greatly the freedom of operation now enjoyed by state banks. This may sound purile to some, I hope not, however, to a majority. I believe, even to the contrary, that the little fellow operating a small country bank, far remote from the din and clamor of the city, is just as important and just as necessary in his little niche as a managing officer of the large city bank is in his sphere. Trust powers for state banks, or any other powers that apply to large banks, should be preserved and guaranteed to the state banks if they need and want them. Let us stand for greater powers, for increased powers, united powers, for conformity, for uniformity and for everything that makes for the best in state banking; but, in doing so, let us cling to that old style of state banking that

insures broad-spirited liberality, and let's make the balance of power radiate it so that its power will pervade the influence for better banking legislation.

Several other delegates joined in the discussion, but the stenographer who reported the convention was unable to report their remarks in form suitable for publication.

PRESIDENT HAZLEWOOD: It gives me a good deal of pleasure to introduce to you one of our own members, a man who has been identified with the State Bank Section from the very start. He has received a signal honor, an appointment on the Federal Reserve Board. I am sure you will be very much pleased to hear from Mr. Henry A. Moehlenpah of Wisconsin, who is, in his own words, "a little country banker."

## STATE BANKS AND THE FEDERAL RESERVE SYSTEM

HENRY A. MOEHLLENPAH

I appreciate the hour is late and it is very warm, and I see my friends from the northern section and from the mountain section very busy with their handkerchiefs, but I shall make what I have to say brief. I am very glad and happy today to have this privilege of meeting once more the members of my host company, the State Bank Section of the American Bankers Association. As the chairman has stated, it has been my pleasure and privilege from the very first day to have an opportunity in this organization, and I am glad, Mr. Chairman and gentlemen, that this child is beginning to walk and beginning to talk and articulate and beginning to get under things and to take its part as the great controlling constituency of the American Bankers Association, and I am glad because in this meeting today men from the back row have taken their part and had their say. The State bankers, the backers of our state charter institutions of our country, control this great Association numerically, they control it from every other standpoint, from the standpoint of contribution, they make the running expenses of this Association, but just recently you have come to your own and I am glad for you and I am glad for this opportunity. I say good-bye, but to thank you most for what you have been to me and for my state and for what you are going to be. It has been my privilege as a banker to serve in a community of about nine hundred people for twenty-five years and I do not think it is an exaggeration to state that the majority of the membership of the

American Bankers Association come from such communities. They do not come to the convention hall, they are not heard here, but they pay their dues and support the Association and I charge and challenge you gentlemen of this Section to at all times have a respect and give them your confidence as you may legislate and act for them in the convention and do not forget them. As I come to this meeting today, I want you men to understand that I am still a banker and still belong here because I have not yet qualified as a member in the Federal Reserve Board, and what I say I would like to say from your midst as well as from the side line,—as one of your members and not in any other way nor in any other capacity. I understand, as you men must today, that we have come from this great war, from this great trial, I am sure bigger men and better men. We cannot face our problems as bankers in the same narrow way, the same selfish way, as we have in the past. You men that have served upon the draft board, you men that have led in the bond drive, you men that have given your sons are better citizens of a better republic than you were before this war. If we are better and deserve the position of leadership which we occupy as state bankers, we will have to have a larger program, we will have to have a larger vision of our opportunity as public servants than we have had in the past, and as I leave the rank and file to go to this new responsibility, I go with the sincere desire to enlarge my opportunity that I may serve you men and my country better than I have in the past. To this end I just want to ask for your counsel, for your advice, for your help. The administration at Washington has not recognized me, but they have recognized you as country bankers representing one of the great producing classes of our country, the agricultural. They have sought, I am confident, to do that thing that will be of the greatest service to this country in coming to you in this way. May I ask you to give a deeper consideration to the merits of the Federal reserve system? Where would we have been, my fellow-bankers, when this war broke upon us, if it were not for this system? Thirty millions of dollars raised in this country, we sent our merchandise, and we sent our money and we sent our boys, that triumphantly saved this world from autocracy and preserved the institutions of our country for the world. So I appeal to you, you men who occupy so unique a position as leaders in this country that you conserve and appreciate more fully your position. The Federal reserve system is your servant and mine. It is designed to help and not to hurt every banker and every citizen. We are coming to an enlarged opportunity and I pray that soon we shall enter the open door. The world is waiting for the last contribution of America. They cannot go back to the days gone by. God in His omnipotence has spoken to the human race; the League of Nations. The idea and the ideal is from the mouth of God; it has come to preserve that for

which we have fought. We cannot go back to the days when might makes right nor to the day of arms and armaments nor to the day of competition. The day of co-operation, the day when Christian ideals are to govern the human race are here, and, my friends, when you think of your relationship, think not with the sordid idea of the dollar, but in terms of service; and as we shall be permitted to live, we shall render an account as men with this thing before us. The prostrate nations of the world are waiting to see that treaty signed so that governments can be set up. And do you understand what that means to America, that we can in the days to come extend credit to establish governments that will exist because of this treaty; that as we extend this credit we will provide the means by which the great producing classes of our country will profit. Why should it be delayed? We cannot pass it on to the leadership of the small men or the politicians; we must listen to the heart beats of the people of this world. When that day comes, it is going to make large demands upon bankers. We ought to be proud that we have a unified system under the Federal Reserve Act where we can move up to that larger place when this credit is extended. We can only create wealth by working. The producing classes, the laborer and the farmer, are the actual wealth producers of our country. Their welfare is ours, my friends. My message would be particularly to the country banker, that as the day of machinery comes to the farmer and as an enlarged opportunity comes, we stand by his side in credit. It means much to you. If the amount of money today that is in the banks of England and France and Japan and Italy and the Netherlands, if the amount of money equal to the deposits in those countries were withdrawn today from our banks, we still would have enough money, as much money as was there in 1914. Our country has thirty billions of dollars, ten billions will be returned, but a debt remains of twenty billions, but it is only 8 per cent. of our wealth and the dollar of America is now the standard of the world. Now, my countrymen, I appeal to you state bankers, not from a technical or commercial standpoint, but because of the opportunity for you as the servants of your community to enlarge and better the productivity of your community. I have three suggestions, three observations to make with no thought of soliciting, because I am speaking from a state country banker's standpoint. First, the prestige and safety of the Federal reserve system is worth all it may cost you in any loss that you may have from any standpoint. Find out what your neighbors are doing, do not be deluded into thinking that as state bankers you cannot participate in those benefits to the same advantage as our brother member, the national bank. It applies as well to the country state bank as to the city state bank. And second, there is an appeal before Congress to grant to banks of cities of certain size, of certain capital, the power of establishing banks. A fear has come

up among bankers, and perhaps rightly founded, that that privilege might be extended to the country districts. If that should get volume or that demand should increase, it will be because of one reason, and that will be because the independent banker in that community is not serving his community in as abundant and free a way as he ought. I challenge this as my second observation that you consider carefully the Federal reserve system as your elder brother, as your reserve, your first reserve. While we must protect the independent banking system of this country, because I believe it is American and democratic, I ask for your very careful consideration of that phase. Third, from the standpoint of service. The time has come in this country, I believe, when the business of the farmer should be commercialized to the extent that he become a business man, and that his paper, the products of his labor which that paper represents, shall become more current in this country. I ask the country bankers to go back, to be leaders, to get their farmers to be more businesslike. When that paper is created, paper that is liquid and runs off in a stated period of time for those products we should produce, they will be consumed. I state to you there is no better paper produced in this country or anywhere. Take that paper, and by using the Federal Reserve system to serve your community you will discover the farmer will follow rapidly. There, my friends, in this family, in a brief and direct way, I would ask you men to rise as country bankers to your privilege and opportunity. Now, in conclusion, I am going to be a lonely chap at Washington unless you help. I am very proud and thankful today because of the confidence of my associates upon this Executive Council and to merit your help and your confidence will be a benediction.

MR. PUELICHER: My former colleague from Wisconsin, now from Washington, D. C., has been a member of the Executive Council of the State Bank Section since its inception. He has been peculiarly the representative of the small state banks. He is now among us today as a member representing state banking institutions, and I believe it will be fitting that this organization at the first meeting of which he presided should resolve that we wish our colleague long life, good health, and God speed in his new undertaking. I so move you, Mr. Chairman. The motion was duly put, seconded and carried.

PRESIDENT HAZLEWOOD: I should like next, gentlemen, to ask a man to talk to you, one of our hosts, a big man in the Association, a man whom we hold in very affectionate regard, the first Vice-President, Mr. Richard S. Hawes.



MR. HAWES: I have been deeply interested, the brief time while here, in the discussion which you gentlemen have had. It speaks much for your Section. It shows that the democratic spirit so prevalent with your President has permeated clear through into the organization and that each man on the floor in this Section has his say and voice in its deliberations. I was also very much interested in the speech of Mr. McCauley, and the Hon. Henry Moehlenpah, both of them giving thoughts which are worth taking home with us. I want first to say this, make this little report to you gentlemen. It is my good fortune as Senior Vice-President of your Association to be a member of the Administrative Committee composed of the section heads, two members at large, and the officers of the Association. During the year, in the interval between Council and convention meetings, that committee is the final court of resort on everything pertaining to the activities of the greatest Association in the world, the American Bankers Association. That Committee is supposed to act not for any section, or kind of banks, but to act as the administrative body of the American Bankers Association without bias, and with the interest of all at heart. During the past year, the committee has met many times, they have considered matters which we deemed of the utmost importance to the welfare of every banker in America, and seated in that committee was the President of your section, Craig Hazelwood; and I want to make a report to you gentlemen from that committee that no man sat on that committee whose counsel was listened to with more interest, no man gave his opinions in more unbiased and fair and upright manner, and as a member of the Administrative Committee, I certify to you that the American Bankers Association first and your section second, was ably and splendidly represented by your President. Now, gentlemen, you have had a long session. I did not come up here to talk to you, but merely to be with you a few minutes and listen and I will say just one word more to you. We are meeting tomorrow, the day after, and the day after that, American bankers representing every state in the Union and representing every kind and character of banker. We are a

conclave of men, trustees of the people's money, trustees of the interest of industrial progress and trustees of every economic question before the country for consideration, and we must measure up to the responsibility that is placed upon us. We must carry back from this convention messages which will mean a broadening vision of operation and greater activities among our bankers; we must assume the responsibilities of the position we occupy and lend our voices in the solution of what I consider to be reconciliation, not reconstruction, and we must take our place in the march of progress—first, of course, as American citizens, and then as servants of the people and trustees of their funds; and so men of the State Bank Section, I carry this message to you, if I may: Listen well to what may be said to you in your section and in your general sessions; gather in the thoughts of your speakers, and enter into the discussion thereof; and then go back home with the determination that you will co-operate and co-ordinate all of your efforts through the American Bankers Association for the betterment of the people and the betterment of the finances of this country.

**PRESIDENT HAZLEWOOD:** The next in order will be the appointment of committees for this convention. I will appoint on the Nominating Committee the following gentlemen: Mr. D. M. Armstrong of Memphis, Tenn., Mr. L. H. Farnsworth of Salt Lake City, Utah, and C. J. Wohlenberg of Holstein, Iowa, and they will be prepared to bring in nominations for the positions of President, Vice-President and two new members of the Executive Committee on the Resolutions Committee, I will appoint Mr. R. S. Hecht of New Orleans, Mr. E. S. Gardner of Philadelphia, and Mr. H. L. Hopkins of Clark, S. Dak., and this committee will also report tomorrow afternoon. The next subject is new business. Is there anything to come before the meeting in the nature of new business? If not, motion to adjourn will be in order.

**MR. SAMUEL (Oklahoma):** I desire to call your attention to one thing and that is the recognition of the secretaries of state banking associations of strictly state bankers. I understand that under the present by-laws and rules of the American

Bankers Association only one association in each state is recognized. Now in several of the states we have two associations by reason of the operation of the guaranty laws, and it seems to me it would be quite fitting and proper that the secretaries of the separate associations representing state bankers should at least be given an honorary position in the association, or it might not be amiss that they should be recognized jointly and each have a half hold on it. However, that will be a matter to be taken up in the future, but I do think that this Association ought to take some action whereby secretaries of state bank associations, strictly speaking, may be recognized as honorary members at least where they are not recognized at all at the present time.

PRESIDENT HAZLEWOOD: If the gentlemen will present suggestions to the Executive Committee at their meeting which will immediately follow, I am sure they will be glad to have them.

The meeting then adjourned.

## SECOND SESSION

Tuesday Afternoon, September 29

The second general meeting of the State Bank Section was called to order at two o'clock by President Hazlewood, who said:

We have a very interesting program this afternoon, and I am sure you will all enjoy it. One of the great problems of a bank, particularly a country state bank, is the problem of wise advertising policies. I, in my capacity in my own institution, interview a great many men regarding advertising propositions during the year. I see a very great number of schemes, advertising schemes, publicity schemes, that are presented, and I see so many of them that are utterly futile and utterly undignified and foolish. Now, we have asked a gentleman to speak to you today on the general subject of advertising with particular reference to the country banks. He has chosen for the title of his address "Bringing Up Capitalists." This gentleman is him-

self an expert in the matter of advertising, and we felt that it was rather better to bring a man before you who had made a study of the subject from a business standpoint than it was to ask a man in our own profession who may have had experience in that direction. I take pleasure in introducing to you this afternoon, therefore, Harvey Blodgett, president of the Harvey Blodgett Company of St. Paul.

## BRINGING UP CAPITALISTS

HARVEY A. BLODGETT

When your President invited me to fill a place on your program with a discussion of practical publicity plans for banks having membership in your Association, I gladly accepted the assignment; for I believe that financial publicity should pulse with the action of these unparalleled times; that it should rise to the national exigencies. And so I shall try to demonstrate in this presence how blank publicity properly devised, modernized, can have a marvelous influence in establishing sanity where reason is in danger of dethronement; how it may entwine the roots of thrift and of economy, and of straight thinking about the heart of the republic; and how it may be a greater factor in increasing the nation's resources in working capital and in efficient producers.

Today the nation stands in need of more capitalists, of small estate as well as large, that its financial reserves may be mobilized; and that the sane thought of the serious minded, who have something at stake, who have an interest in industrial development, may prevail against the wild theories which are being propagandized without limit or restraint.

Not long ago our country demonstrated that it was possible to marshal, at short notice, an enormous army of capitalists, who, millions strong, worked and invested. But this army sprang into being suddenly, and, the war over, is rapidly disbanding. The need of organized thrift remains; indeed it grows. The banks of the nation are logically the central thrift stations at which financial power is generated. The demand is for more, many more capitalists. Whence shall they come? The material is all about you. It has proved once its responsiveness. What better avenue of approach to these potential capitalists have the banks than through their publicity?

It ill becomes the bank publicist to assume, in times like these, that the highest mission of a bank's advertising is to press its claims for business from those who feel the need of a banking connection; or to demonstrate to the public such distinct advantages as it imagines

it has over its neighbors in the way of superior facilities and commendable enterprise; or a degree of official integrity, by implication, rare among its competitors. I disagree emphatically with those who persist that a bank's advertising should be distinctly and selfishly its own, should mirror it to the public as in a class by itself. The bank which adheres to this idea and talks only of itself will find scant response from the masses.

I, for one, prefer to assume that bank publicity has a higher calling. That, in the main, it should be devoted to the bringing up of more capitalists, to the encouragement of initiative and creativeness. It should be the antidote for the propaganda of radicalism, the cure for economic illiteracy. Why not?

And I am convinced that a bank, in adopting modernized publicity policies, such as I shall presently outline, will sacrifice not a whit in direct benefits and substantial results.

While the war was on the nation was at one in its willingness to sacrifice and work that we might win. Class differences were sunk in the common purpose. But no sooner had the curtain rung down on the battle fields of France than did this country become a battlefield of "words and phrases." As the months elapse the action of the drama becomes swifter and louder.

You gentlemen who live and move in an environment of culture are apt to fail to appreciate how those in humanity's less favored classes are influenced and dominated by the propaganda of radicalism. You read your daily papers and your soundly edited current magazines and assume, perhaps, that this safe propaganda predominates. Possibly you forget, too, that the abundant phrases and glittering promises of the demagogue sound sweet to a large proportion of the great mass of citizenship. Those who would extinguish capital and set license free, who would throttle initiative and shackle production; and those who would foist upon us daring experiments, find open ears right in your own communities.

The social unrest you read so much about isn't in distant communities; it is fomenting at your doors, and it is something with which you must reckon.

The condition of social unrest in England, admittedly worse than in this country, is incited by a class of propagandists aptly described by W. A. Appleton, president of the International Federation of Trade Unions. His eloquent words are well worth quoting because they contain a timely warning to America. These demagogues, says Mr. Appleton

"Have, in the main, to deal with an unthinking proletariat. They may enrich their promises with rhetoric's choicest ornaments; they may build not castles in Spain, but empires on formulae. *They have no responsibility.* They usually suffer from moral obliquity and con-

structive paralysis. To demand rather than to provide is their metier. The consequences of these demands are either beyond their intelligence or without influence upon their consciences. They will cheerfully adopt and promulgate every panacea of the ancients or the moderns, and just as cheerfully discard and forget them. Whoever dies, they live; whoever fails, they are triumphant. It is no use analyzing intentions. A nation faced with strangulation can only deal with effects and the effects of the propaganda which these revolutionaries have fathered are culminating in disaster."

I quote this sane labor leader because similar insidious influences are at work in this country trying to destroy what the banks of the nation are helping to foster and construct. And I hope to develop in your minds the belief that you bankers, in your publicity, have an opportunity to combat the evil of this endless outpouring of destructive propaganda. For this propaganda is dulling the senses of the republic; it is undermining the purposes of men and women; it is nipping promising careers in the bud; it is interfering seriously with the successful bringing up of the numberless capitalists whose contribution to the nation's resources in wealth and brain and effort are needed.

Almost everyone wants to be a capitalist. A customer with capital is the banker's delight. His interests are in common with the man who is trying to get ahead in the world. The more capitalists the banker can aid in bringing up, and the larger numbers he can shield from the insidious wiles of financial wolves, the more his institution and his community will be enriched. Therefore I often wonder why so many bankers are most attent upon the needs of those who have arrived.

"A capitalist," says Webster, "is one who has capital for investment; a person of large property which is or may be employed in business." Is not Webster a little old-fashioned in his definition? Perhaps when he wrote it savings banks were not as popular as now; at least there were no Liberty Bond owners. If a modern Webster should revise this definition I believe he would extend it to every one who has a modest sum at interest.

Fred Stone's definition of a socialist is "one who has nothing and is willing to divide with everybody." The more capital one acquires the further his sympathies become removed from the aims of the agitator. The best panacea for social unrest is the treatment which makes people better off.

Give the laborer a living wage, so that he can have a margin over the cost of living, and then inspire him to save and you make a capitalist of him. Thus you help in a most practical way toward the solution of the labor problem.

"Production, not phrases," says the labor leader I have quoted "are

needed in these crucial times of international unrest." And so while the industrial world turns its attention to the vital matter of increasing human production, why is it not logical for the financial world to concentrate on the task of producing more capitalists?

During the war we made pretty good headway in turning out capitalists but since the armistice the work has lagged, not being anybody's business in particular, and we may fairly conclude that, on the whole, the making of spendthrifts is gaining the upper hand.

If all the money waste resulting from inordinate desire for luxury, from misplaced confidence and stunted financial judgment could be recorded and appraised I fear it would force the conclusion that we are a nation of children trying to cut our eye teeth on the keys of Paradise.

War savings are fast falling into the coffers of the luxury vendor and the fake promoter.

By the time two billions or so of War Savings Stamps mature the majority of their owners will have masters' degrees in the art of spending. All their able and designing teachers will have to do is cash in.

The propaganda designed to separate people from their money greatly outmeasures the thrift propaganda both in quality and quantity. It abates not. The one obvious necessity is to set up an organized thrift propaganda which will not be a repetition of platitudes; but which will match the masterful literature of the cohorts of unthrift.

Nowadays if a man has some half-baked socialistic theories he wants to get out of his system into the fertile minds of the proletariat he mounts a soap box and quickly draws a sympathetic crowd. Then, to his heart's content and the delight of his audience he damns capitalists, employers, bankers and everybody else who is trying to do constructive work with brains and money. Ignorance champions causes which keep men poor. There never was a time when so many interests were offering panaceas for every social ill, or were suggesting so many untried programs of procedure.

Gentlemen, do you often see a man on the street corner preaching thrift to the unreached, or showing the unled how to become capitalists?

Weigh at this moment the aggregate influence of the advertising of thirty thousand banks and ask yourselves how much real influence bank publicity, in the mass, has in competition with the propaganda of the leaders of unthrift, unrest and revolution.

Bank, publicity should challenge ambition, should educate, inform, inspire, mold public thought. The plea "bank with us" should, in reasonable measure, give way to the inspiration to "*produce more, save more; become a capitalist.*"

The best way to make a boy a level-headed, industrious, conscientious man is to give him a good bringing up. Stuff a boy with vicious

literature and he becomes fed up with evil. The human mind, like the human body, thrives on the nourishment it receives.

Stuff an older boy's head with I. W. W. doctrine and you rear a Bolshevik.

Imbue a young boy, or an older one for that matter, with success thoughts and you rear a capitalist.

Now there is knowledge enough in the banks of the nation to show everybody how to become an honest-to-goodness capitalist. In none too many banks does this knowledge find outward expression in helpful propaganda, disseminated as publicity; but it is kept on tap and fed sparingly to the few who come with open mouths. One can but wonder why so many banks are keeping this priceless wisdom to themselves or bestowing it on the few, when the printed word offers such a simple medium for multiplying the numbers who may profit from it. And one wonders more when he reflects that almost every bank is expending sufficient funds in general publicity, often without concrete policies, to accomplish splendid results in educating and inspiring and bringing up potential capitalists.

The minority who succeed often get their education through hard knocks and needless setbacks. By grafting the "how to succeed" idea on individuals painful failures may be prevented and many a success hastened. If it is the proper business of the physician to prevent disease, and of the lawyer to steer his client clear of litigation why is it not the logical thing for a bank, through its publicity, to prevent failure rather than to indicate an overwhelming desire to minister mainly to the successful?

Now, I embrace the theory, without reservations, that the best way to scotch the evils of radical propaganda is to fill the public mind with constructive, self-helping propaganda. A person bent on winning success hasn't time to listen to demagogues. There is no room for destructive thought in a mind filled with constructive purpose. Feed ambition and you starve Bolshevism. It is likely the case of beneficent bacteria overpowering and eating up harmful bacteria.

How are we to apply all this reasoning to the publicity of banks? I imagine I hear some one ask "is all this theory, or is there a practical way to work it out?" One's position is, indeed weak, if he expounds theory and sidesteps formulae.

In a very recent address before financial advertisers I strongly recommended that a bank reduce its advertising policies to written words. You may discuss plans and methods orally, and on separate occasions, but such discussion should lead to an intelligently co-ordinated program. If you sit down and, with or without experienced counsel, consider your field, its needs, its opportunities; and then balance and weigh various plans for accomplishing your ends; and if out of this you crystallize definite, workable policies and reduce



them to writing, you will have a finished policy which reckons with cause and effect; you will have a chart to go by; you will have a standard for every member of your organization to square his actions with; you will have set a high goal of achievement. And then, with your policy established you will find it comparatively easy to choose methods and materials to put it into action. Without definite, crystallized policies an advertiser is as a rudderless ship.

Perhaps this discussion can be of some real service if I conclude it with a suggested policy which may form the basis of one which may better reflect your individual needs. We will start it thus:

#### PUBLICITY POLICIES OF STATE BANK OF BLANKVILLE

The following declaration of Publicity Policies of this bank is not intended for the sole guidance of the person having its publicity in immediate charge. It is desired that every member of this organization become familiar with these policies and interpret them in his or her daily contact with the public.

It shall be the purpose of the publicity of this bank to set high standards of individual effort, not only to its customers and prospective customers, but to its officers and employes as well. Therefore it is the desire of the management that each and every one of us read every piece of advertising matter issued, and then reflect its spirit and redeem its promises in the fullest measure.

Recognizing the fact that the results of publicity are cumulative rather than immediate; and that to gain large results requires time, this policy shall govern, not for a limited, but rather for an indefinite time. By adopting this policy the publicity of this year will bear fruit next year; and to the publicity of subsequent years will be added the cumulative benefits of all behind it.

It will not be the policy of our publicity to sing the bank's praises so much as to imbue the minds of customers and potential customers with the fundamentals of success. We believe we can gain more by telling the public what this bank can do for folks than by the reiteration of what it is, and how zealously its staff co-operates. Our publicity should make all this self-evident. The best way to convince the public that this is a bank of genuine service is to visualize its service. The public will quickly make its own appraisal, judging as it will, by deeds rather than by self-sung praises. We will rest our hopes for practical, substantial results on the belief that a bank which inspires, guides and helps the individual in his effort to reach a larger estate will be chosen, inevitably, by that individual as the scene of his operations.

It shall be the policy of this bank to chart its advertising plans well in advance rather than to attempt single ventures as they are offered from time to time. In this manner all the publicity may be co-ordinated

and its component parts devised with a view to furthering the general plan.

It being evident that a successful policy cannot be conceived without having clearly defined aims, it is determined that our publicity will have the following ends in view:

**Part I. The development of consistent, permanent thrift.**

In doing our part in encouraging thrift we will not only increase our opportunities for profit and build for the future but will perform a great public service. For thrift and discontent do not abide in the same individual; and the demagogue draws his adherents from the ranks of the unthrift and untaught.

In order to be in deed as well as in name a consistent exponent of the principles of thrift this bank will construct its publicity program so as to give due attention to the following:

a. Dramatizing to the community at large the vital message of the blessings of thrift, in varied and interesting terms.

b. Furnishing depositors who now have savings accounts with constant inspiration, that the saving habit may be solidly established, and that their purposes may not waver.

c. Encouraging the Liberty Bond owner to persistently hold his bonds and to pyramid his investment by reinvesting the interest therefrom; inspiring the War Savings Stamp owner to continue his thrift, and to steadfastly retain his holdings.

d. Promoting the "Work and Save" idea, knowing that more production on the part of every individual will bring the happy solution of vexed national problems; and, also, promote the progress of potential capitalists.

e. Teaching the fundamental principles of safe investment. This bank will make known, through its publicity, the willingness of its officers to counsel with those who wish advice upon investment matters. It will also lend every encouragement to the idea of saving here to acquire funds for permanent and safe investment.

f. Encouraging the adoption of the "home budget" as a practical means of promoting economy and reducing living costs. Also laying emphasis on the "pay as you go" idea and the avoidance of debt.

**Part 2. The development of commercial business.**

It will be our policy to make known to every depositor now on the bank's books all the ways in which we can serve him. We will not be satisfied to let the depositor discover his own need; but we will offer him constructive suggestions which will enlarge his understanding of financial methods and of this bank's facilities. Our publicity for this department will, therefore, be directed along the following lines:

a. Making clear the advantages of a checking account and of establishing an acquaintance at this bank.

b. Teaching borrowers and future borrowers the fundamentals of

credit building; this not so much with a view to creating outlets for money as for the better purpose of helping men to so conduct their affairs that their responsibility will be enhanced. Credit is the stock in trade of this bank. It is based upon invested capital. It should be used to increase production and profit. The man who qualifies as a credit risk governs his actions with high ideals. Therefore, in aiding men to develop credit this bank will perform a useful service to the community.

c. Encouraging discussion of business projects with the bank's officers and an analysis by them of the motives and opportunities of those who are striving for success; by so doing mistaken business policies may be set aright and deserving plans may be helped to their fruition; thus initiative and creativeness will find deserved co-operation.

d. Aiding the farmer in joining his acres, his toil and his money with the facilities of this bank for increasing his production and the rewards therefor; co-operating with the farmer and others in concentrating their indebtedness where it properly belongs—at the bank—and encouraging thereby cash buying and the use of discounts; also, bringing the farmer and the town into a closer bond of understanding.

e. Co-operating with the local merchant in his effort to stay the tide of competition of mail order houses.

The publicity of this bank will be directed toward these objectives and in view of the necessary breadth of this program the greatest care will be exercised that every dollar of expenditure may be directed toward the furtherance of these objects.

The advertising appropriation of this bank for the ensuing twelve months will be \$——.

\* \* \*

Some of you will say that this is a very pretentious program. Others that I have omitted much. But gentlemen, when there is so much that needs to be done; and when there is so much that can be accomplished through a carefully devised publicity policy; and when the country is engulfed in a sea of propaganda seeking converts to ideas antagonistic to individual efficiency and to financial sanity, is it not strange that any bank will continue to spend its advertising appropriation for pointless publicity, uncontrolled by concrete policies?

"How," asks some one, "are such comprehensive publicity policies to be carried out?" The answer is, as I have said on other occasions, by turning your publicity into efficient propaganda. It won't cost you any more than would sporadic, haphazard, unrelated advertising ventures. In the last analysis it means making your publicity an intensive, intelligently devised system of community education for the purpose of bringing up capitalists.

PRESIDENT HAZLEWOOD: That was a very thoughtful paper and a very important speech, and I should like to have it

followed up by general discussion if there be among you some who would like to talk on this subject of bank advertising. I have often studied the matter; I have often had it in mind that in the case of banks there was a difference, a very strong difference between advertising and publicity. If I send a brass band out on the street with the name of my bank on the big bass drum, that is publicity; but it is not advertising, to my way of thinking. It is not advertising in the sense that it creates confidence in my institution; and to my way of thinking that is the whole sum and substance of bank advertising. When you go into a shoe store to buy a pair of shoes you want to be satisfied that the shoes are the right quality and the right price; you have no question in your mind; there is no reason for questions in your mind whether the shoe store is financially responsible and will be there tomorrow or the next week or the next year; but when you go into a bank to establish a bank connection you not only want to know that the quality of the service that you will receive is correct, but further that that bank will endure, and that the connection that you are establishing with them will be one that you will be glad to have for many years to come. And so it seems to me that bank advertising is after all one of the best methods of inducing confidence in your institution on the part of the public at large. Now, I would like to have a discussion on this subject. I see a man in the audience—he doesn't know that I have him in mind—who is one of the best advertisers—one of the best in the sense that he is one of the most resultful advertisers in this section of the country. He is a national banker partly, but a state banker as well. I haven't asked his permission but I would like very much to ask Mr. Woodruff of Joliet if he would say just a word on this subject of bank advertising.

MR. WOODRUFF: Advertising may be classified as indirect and direct. The first of these classes of advertising is typified, of course, particularly by newspaper copy, newspaper advertising. And we believe that our experience shows that the best of what you may call the direct form of advertising is the direct circular letter. Now, of course, there are lots of different

kinds of advertising stunts that can be used and that will really bring some results, and yet when you get down to real brass tacks for the future bank, particularly the average small bank, the two fundamental things in our mind are newspaper advertising and direct circular letters. And, of course, your advertising must be gotten up in a way that will really get results. As I go across the country now and then and pick up the newspapers in every town I go through where the train stops and I can buy one, I turn to see whether they have live or dead banks, and I often find a string of dead banks. I don't have to do anything more than look at the paper, because there I will find the old-fashioned business cards. Of course, the copy, we all know, is an important thing; the copy must be up to the minute; must have punch in it, and at the same time must have a certain degree of dignity that goes with the banking business. And the position in the paper is important. I always like to get—and I don't suppose many of your expert advertisers will agree with me on the location—but I always like to get on the second page of the paper down at the bottom on the outside corner. You never can get the first page, but as a fellow turns over his page of a paper he doesn't get away from that bottom corner where his hand turns the paper over and very often you can get that privileged position in your local newspaper. Then the matter of setting up is important. Some of you may have a decent looking building that you have a picture of. Put your building at the top of your cut, because even if you live in a fairly small place, when you get out and try to have people choose your bank for their business—let us say that yours is the Smithville National Bank, and the First State Bank is down the street a block—you will be surprised to find out that the average fellow doesn't know which is the Smithville National Bank and which is the First State Bank. But the picture of a building, if you happen to have a building that looks fairly good—and if you haven't, you had better get one—the picture of the building will lead the people to come to the right bank. So we believe that it is important to get some character of advertising beyond the mere name that will bring the men into

your bank, so that really your competitor won't get the advantage—that is, the direct advantage of your advertising. And so, after you have put this series of advertising in the newspapers, and after you have created a general feeling of familiarity with your bank follow this with more direct advertising—just like Spearmint advertises, for instance. They just say "Spearmint"; you see the name; you know it's gum; you know it is a nickle; you know there are five sticks, and you know it is Spearmint. Yet, that doesn't sell you the gum. In addition, of course, you see the sign right on the counters, and a good looking girl behind the soda fountain is pushing it out, and that is what brings the sale. And so in the banking business you have got to create the knowledge that you are in the banking business and that your bank is a sound, serviceable bank, and that you want to serve the people. The best way to accomplish this is by well thought-out circular letters. Address them to Mr. Smith, "Dear Mr. Smith," or if you know him well enough, "Dear Bill," and have his name written in on your circular letter in such a way that "Dear Bill" won't know it is a circular letter. Make an appeal to Bill to come into your bank and do business with you; tell him in the letter why you want him to do business with you—that you want him to come in as soon as he comes down town the next time, so he won't feel that it is just something that he can come in to see you about any time. Make him feel that it is his business to come down to your bank whether he is going to do business with you or not. And then when you sign the letter, for God's sake don't sign it with a rubber stamp like a lot of fellows do. If you haven't time to sign your letters because you have a whole lot of them, and that may be so, then have your stenographer or somebody in the bank forge your name if necessary, but write it in ink so that when "Dear Bill" gets the letter it looks like a real letter from you. I get letters from big banks all over the country every little while soliciting business, and by golly they have a rubber stamp signature on the bottom. Of course, it doesn't get by at all. Now, those are the two things in my mind, the two fundamental methods of getting business; and it is a surprising thing how many people

who get the right kind of circular letter—I am not talking now of the general newspaper advertising—but it is a surprising thing how many people will take that letter in their hands and come right down to the bank and say: “I got your letter and I came in,” and it is a great satisfaction to have that happen, because you know you are not wasting your advertising appropriation. In that case, of course, you ought to accompany the letters by appropriate little booklets or cards or little things that will attract interest, and, of course, that gets us into the discussion of the booklet advertising field. I know that the Chairman is getting nervous for fear I am going to talk all afternoon before I get through, but I must say that the whole field of financial advertising is a subject that means money to us, all of us in the banking business, and it means the extension of great good to our people. Just as our interesting speaker of the afternoon has said it is the great power to extend better ideas and the ideas of success to the people of your community. And, of course, we who belong to the American Bankers Association, particularly during the last ten or twelve years, have come to learn that our reward of being in the banking business comes from the feeling that we are doing a good job in our local communities, and that in addition to the payment of dividends we are really improving the life and conditions and the future of our neighbors and our friends.

MR. HUXFORD: I do not quite agree with our friend, Mr. Blodgett, though I appreciate his magnificent address and his suggestions. I believe the state banks, all those state-chartered institutions, are of enough importance with all of their resources known to the public, and I believe that what the state banks are should be pounded into the general public and not left to inference, as is the case today. A certain class of banks have in Washington a government official who acts in a certain sense as the advertising manager of that class of banks, and I am certain that the effect of that upon the general public is away beyond anything that we appreciate. Now, I want to add just another thought in connection with the letter proposition. We have tried it out in our own little institution and have found

that we have an advantage by it; if you will incorporate in your letter a question which requires an answer and if you will enclose with the letter a return envelope properly addressed it will be the means of getting in closer touch with your prospective customers and will soon lead to something that will be material to your institution.

President Hazlewood then introduced W. H. Booth, Chairman of the Conference Committee of State Banking Institutions, who reported as follows:

### JOINT CONFERENCE COMMITTEE

#### WILLIS H. BOOTH

I owe you an apology for not appearing yesterday as the program had indicated. Unfortunately we have three Sections interested in the same Conference Committee and the program had not been previously arranged so that it did not overlap, and as we could not be every place at the same time, I extend that apology in coming to you today to make you such a report as we can at this time in regard to the Joint Legislative Committee of Nine. This committee is made up of three members from the State Bank Section, three from the Savings Bank Section and three from the Trust Company Section of the American Bankers Association, called into conference in regard to such matters affecting state-chartered banks as are of national character legislatively. In order that you may understand the work of the committee, which was only formulated at the session of the Executive Council at White Sulphur Springs in May, I will have to impose upon your meeting for just a few moments and repeat the history of the movement and give the facts which made the foundation for our existence. There has been a feeling for some time among those of us who are connected with state-chartered institutions that in the direction of legislation—and I refer in my remarks today clearly to national legislation—in the direction of legislation of a national character, it is becoming steadily more important that the view-point of the state-chartered banks be given an adequate construction and freed from such delusion as may have been necessary when it went through the natural processes of the formulating method of administration by the American Bankers Association and those associated with its Federal and national interests. And so about a year ago, in weather much like this, though a little hotter, we had here in St. Louis, a little meeting of those who were interested in the state-chartered institutions,—interested primarily in seeing that in matters of national legislation the viewpoint of the state-chartered institutions be given



adequate construction. The result of that meeting, as you know, was the formation of an organization called the "United States Council of State-chartered Banks" or some such name—I don't believe I have ever said it twice alike—but as I have indicated to you, its desire was to present to the authorities at Washington the viewpoint of the state-chartered institutions in matters which affected their interests. And so we established offices in Washington and we got in touch with all of the state banks that we could and the state associations throughout the country, working always in order to keep ourselves entirely free from any work which the American Bankers Association was doing, working only in such ways that would be helpful to them and in no way disturb them. The result of the first two or three meetings of that work, I think—our meetings having been held in July and the last meeting of the American Bankers Association in Chicago in September—was a feeling, a very broad-gauged feeling on the part of those in authority in the A. B. A., a very broad-gauged appreciation of the fact that there was in this country a very strong opinion to the effect that in matters of national legislation state banking institutions had to be considered. As a result very broadly appreciative changes were made in the Constitution of the American Bankers Association which brought into its administrative functions and into its active life very much more of benefit for the state-chartered banks than had previously been possible. It also bore evidence of the fact which we all were bound to consider, that it might be perfectly easy for us to clear up with one machinery what we were unable to clear up with two. This was very broadly conceived by your good President, and we soon got into conference and consultation to see if we couldn't possibly effect such changes in the organic organization of the American Bankers Association and of the State-chartered Bank Section, that we might possibly by one system of machinery, rather than by two, accomplish the result that was near and dear to all of our hearts. So we labored good-naturedly and with patience—and I am afraid Hazlewood had more patience at times than I had—anyway, between us we managed to accumulate enough patience to meet at White Sulphur Springs and there we worked out the situation. We had the entire support of the Executive Council of the A. B. A., because as the months had gone on and as the work had been under way, the very importance of it forced itself into national recognition. And it became evident that when state-chartered banks had matters of national legislative interest in which they alone were vitally concerned they should be allowed to act independently on such matters and not subject to refer them to others who might have a contradictory interest. The result of that was an amendment to the By-laws or the Constitution—I am not sure which—of the American Bankers Association which you will be asked to vote upon. This amendment will be taken up

probably tomorrow, and with it you are no doubt more or less familiar; but I would rather enjoin upon you the necessity of making yourselves familiar with the details of that amendment. At any event it provides that in matters of legislative—national legislative—character the state-chartered banks may act through their own properly authorized authority independent of the authority of the Executive Council when they desire so to do. So that was a long step forward. It accomplished everything in a large way that the state banks had previously desired to do when they formed their own organization. It squared very well with the impressions which all of us had, and so we figured, very naturally, that one organization could pass away so far as its activities in this field were concerned, and we could concentrate on this work here so we could all be sitting around the same table more frequently, save expenses and make a concentration of effort and accomplish that which was all we had in mind, the real result. So, in order to make this joint legislative action independent in character and co-operative where the interests were mutual between the state chartered banks and other interests, a Committee of Nine was suggested. And it is for that committee I desire to say a word; that Committee of Nine was appointed by joint resolution of the various Sections. We organized at White Sulphur Springs and we have taken our work well and seriously to hand and to heart. We haven't been able to do as well as we wanted to do, because we have had the breaks on, pending the time when these amendments as submitted by the Council should be authorized. We are ready for action now; we have done a good deal of work, and we took a very positive position on the Edge Bill in the interest of the Trust Company Section and our efforts were well rewarded and we feel very satisfactory about them. And so I feel in submitting this little report to you that the committee is now organized and it will be doing for you in the interest of state-chartered banks, work of a very positive and independent character, meeting at all times, of course, with your official sanction and squaring its actions entirely with the policies of your organization. I would enjoin upon you, if I may presume to do so, the importance of giving your committee, when named, your fullest cooperation. They are going to be obliged to write to you frequently for your judgment upon matters of legislation. Please be good enough, even though you are busy, to reply to those letters and give them the benefit of your judgment. You haven't any idea how strongly re-inforced a legislative committee is when it feels that the membership of the organization which it represents has spoken; that the members have given it the benefit of their judgment and that the committee can act four-square on such judgment as given to them. So here we are, and the committee is ready to be of any service to you that it can. It reminds me a little bit of a story I have in mind which I am going to take the liberty of relating to

you. There was a man once, and a very dear friend of mine, and a novelist of some distinction, who was working for a newspaper, and he got fired, and we happened to be talking one night and I said, "How did you happen to lose your job? How did you happen to resign from the newspaper work and go to writing novels?" He said, "I didn't resign; I got fired." And I said, "What did you get fired for?" He said, "It was like this, the man that owned our newspaper was an agnostic; he didn't believe in anything, anywhere, on earth or above the earth or anywhere else, but he had a daughter, a very fine woman, of a very outstanding Christian character and she conducted the religious column in the same newspaper. Finally the old man died and I went up to commiserate with the family. I was there on the day of the funeral, and the old man, being of peculiar disposition and inclinations, had insisted that he be interred in his evening clothes, and so the body was arranged that way. I went in and was talking with the daughter and doing the best I could to impress her with how seriously I was touched by the situation, when she said to me, 'Isn't it terrible? Isn't it terrible, father had no belief?' And I said, 'Yes, it is. It is very unfortunate. He is all dressed up and no place to go.'" (Laughter). Now I wouldn't like you to put us in the same position. We hope that we are not waiting for the interment; we hope to be alive, to be of some real benefit to you, and we are ready to serve you if you will pass the proper amendment to the Constitution and give us the chance to be of some real service to you.

PRESIDENT HAZLEWOOD: I will next introduce to you a gentleman from the capital city of the state of Kansas, Mr. William Macferran, who is, I understand, an orator; he is a man of strong ideas and strong personality and I am quite sure will make you an interesting address. I commend him to your attention. Mr. William Macferran, president of the State Savings Bank of Topeka, Kansas, on "State Bank Rights."

## STATE BANK RIGHTS

### WILLIAM MACFERRAN

So far as I know the state bankers of the United States, collectively, have never stated upon what conditions they would be willing to join the Federal reserve system. Before stating my views on this subject, I want to make it clear that I am strongly in favor of the Federal reserve bank.

I believe it the best piece of financial legislation Congress ever passed. I also believe, just as strongly, that state banks are quite as good as

national, serving many communities better and, therefore, believe they should be equally protected and preserved.

That should make it clear that I am not antagonistic to the Federal reserve bank, but I think its directors should not be antagonistic to state banks; I also think the Comptroller should show more friendliness, instead of adhering to his method of attacking them, which I most heartily condemn.

I do not think state bankers can serve two masters. That has never been successfully done by anyone.

1. If it is desirable that state banks become members of the Federal reserve bank, I believe our bank would apply at once and, if accepted, buy stock and make the necessary deposit of gold reserve, provided the regional bank could exercise no authority whatever over it up until the time when it should desire to borrow.

2. When that time comes, the Federal reserve bank should have the right of examination; with its authority limited to ascertaining whether it was living up to Kansas state laws and solvent.

3. If these two conditions were found to be satisfactory, and the bank had Government Bonds or acceptable paper, I think the re-discount should be granted.

4. If the bank was found disobeying the state laws under which it was organized, or was insolvent, it would then not be entitled to the loan.

5. In acting upon the application of a state bank for admission, the Federal Reserve Board could examine and pass upon the banking laws of the state under which it was organized, and if they were found objectionable, not admit any banks from that state until the laws were corrected by the legislature.

6. If this was the extent to which the Federal Reserve Board could mix in state bank affairs, such banks would have but one master and their independent existence not be endangered. To effect this, necessary changes in the law and board rulings might be made.

In making these suggestions, I can think of no possible loss that could come to the Federal reserve bank that cannot come to it. There have been many national bank failures among its membership; but that does not mean losses to the Federal reserve bank. Undoubtedly there have been none, for the parent bank has both the stock and the reserve deposit for its protection, and, unless it would allow an overdraft, a loss is hardly among the possibilities.

The present difficulty in harmonizing the national and state banks with the Federal reserve, might have been avoided if Congress had constructed the law to fit both, instead of considering the national banks alone, forgetting the 15,000 state institutions, with larger assets and just as sound and necessary to the development of the country.

Gentlemen, we want, at all hazards, to prevent the destruction of

our magnificent state banking system. It has always been in the majority, both in numbers and assets, and has been in the forefront in the material development of the nation.

Let us aid the Federal reserve bank all we possibly can to finance the interests of this great country of ours, especially during its reconstruction period, but it should be done without injury to the state banks, and I believe it can. Our Senators and Congressmen, certainly, will help us to this end.

Gentlemen, if allowing the banks in the state systems to become members of their respective Federal reserve banks, upon the terms I have suggested, could be done without loss to the Federal reserve banks, I believe it would be beneficial to the financial interests of the nation to permit it, so that the Federal reserve banks might present a solid front and receive that cooperation which is so much needed at this time.

**PRESIDENT HAZLEWOOD:** We now come, gentlemen, to a subject which appears to me should be one of great interest, judging from the number of conversations that I have had during the time of the existence of the Federal Reserve par collection system. It is possible that there are no new phases in the exchange question as the subject states, but in any event if there are there is no one better qualified to discuss them and to present them effectively than our own Fred Collins, Vice-President now, if you please, of the Bank of Commerce & Trust Company of Memphis. You know, in making this introduction I have to tell one of Fred's own stories. He said in Marion, Tennessee—before he came over to Memphis—that they had to cut out the curfew which was blown at nine o'clock. He said the trouble was the curfew woke all the people up. I would like therefore to present to you Mr. Collins. He is down here in the audience somewhere—yes, there he is. He will give you a talk and lead a discussion on the question of exchange. Mr. Collins. (Applause.)

## NEW PHASES OF THE EXCHANGE QUESTION

### FRED COLLINS

About the time we were getting into the war a gentleman asked a friend of his, "Do you know Tom Bartley?" and his friend replied, "Yes, I know him; what about him?" And he said, "You know I went to a show with Tom the other night and we got seats way

down in front, and the band played the 'Little Brown Jug' and Tom thought it was the national anthem and stood up, and," he said, "I stood up too, damn it." You know in all this discussion of the exchange question on par clearances I have tried very sincerely to analyze my feelings and determine if I was allowing my prejudices and my interests to bias my judgment. I haven't been in the city very long, not long enough to get city broke, but you know I have discovered that it is very much to the interest of a bank—which happens to be a good, big bank—to have par clearances. But I find that have just as keen an interest in proper settlement of this question as I ever had. Did you ever hear the story of that fellow Jake, a half-witted, simple kind of fellow who didn't know anything, but was a genius for teaching animals to do tricks? He was wonderful; he could teach a horse how to do things—make him do almost anything except talk; he could teach his dog how to do anything. And one day it happened that a professor was walking down the street and he saw this Jake, this foolish boy putting his dog through some tricks, and he stopped and looked at him and wondered. He said, "Jake, I want to ask you a question." Jake said, "All right, sir." He said, "Do you know, I am a college professor; I am a graduate in Greek and Latin; I have written two or three books; I speak four or five languages, and," he said, "you know, I can't teach my dog to do anything. I want you to tell me how it is, explain how it is you can teach your dog to do everything." Jake hesitated just a minute and then he said, "Well, Professor I will tell you. If you teach a dog anything you have got to know more than the dog." You know when I was here before in August I had a great deal of difficulty because the question always presented itself as to whether I knew more than the dog. In Kentucky, in one of the mountain districts, there was a Democratic Congressional District where there was just one constituent. The chairman of that district was named Charley, and Charley always, when they had a presidential election around, went back over the mountains about fifteen miles to see this constituent. He wasn't interested enough in ordinary election, but when Alton B. Parker ran for President, Charley, as was his custom, went back in the mountains and drove up in front of the residence of this old gentleman. The old gentleman sitting on the porch got up and walked down to the fence and said, "Hello, Charlie," and Charlie said, "Hello," and he said, "How is everything?" and Charlie said, "It is all right." The old man said, "I know what you are up here for. You have never been up here for anything else." He said, "Well, Charlie, who do you want me to vote for this time?" And Charlie was very proud of Alton B., and he said, "Uncle, it is Alton B. Parker, the peerless statesman." Uncle hesitated just a minute, and said, "Charlie, I will tell you. You came here three

times and asked me to vote for William Jennings Bryan, and I voted for him, and he's made us a damn good President and I am going to vote for him again." Now, you know there are lots of people that consider the exchange question settled, and I guess you will put me in the class with Uncle, that I am still voting for something that is all over and passed. I didn't come here this afternoon to make an address on the exchange question; in fact I came here under an agreement to make no address. You know they tell a story about a girl who was proposed to by a gentleman, and she accepted him, but asked him if he wouldn't kindly put it in writing. He said, "Why, of course. But haven't you any confidence in me?" "Yes," she said, "I have confidence in you, but I had confidence in two or three other fellows but they fooled me." I didn't put it in writing that I wasn't going to speak and I am not going to be fooled.

The exchange question is not settled, because it has not been settled right. The new phase of the question, as it occurs to me, is the fact that it seems to be the policy of the Federal reserve banks to act like the Standard Oil. They go into a territory like the Standard Oil used to do, they put prices down until they break their competitors, force them out of business, until they haven't got money enough or resources enough or courage enough to stick it out. After doing that then they take charge of the territory and make all the money back. The Federal reserve bank—the Federal Reserve Board, it seems to be their policy to pursue the same course in forcing this thing down the throats of the small country banks. There seems to be a restlessness on the part of the banks in this country who are interested in this question, and I am here this afternoon just to say to you that the net result of any effort we make in this contest depends absolutely on the activities of those who are interested in it. They will tell you over at Washington that there is no chance; the Secretary of the Treasury will tell you that; the Comptroller will tell you that; the Board will tell you that. But I want to tell you what we did. We went to Washington on this question with the Secretary of the Treasury, Mr. McAdoo, openly opposed to us, with the Comptroller of the Currency against us and working against us, with every member of the Cabinet against us, and with every member of the Federal Reserve Board against us, and with the Banking Committee in the House against us, and with the Banking Committee in the Senate against us, and presented this matter to Congress on its merits and got 240 votes in the house to 118. (Applause.) How did we do it? We didn't do it in Washington. I took my Congressman in the back room of my bank and I presented this case to him on its merits. And it has merit in it. There is a vital principle involved in this question that behooves you and me to stand up for our rights and not allow things of this kind to stand against us. You know, they tell the story about

Mr. Jones, the great Evangelist in this country, taking a fellow who drank a great deal of liquor out behind the church and talking to him about prohibition and quitting drinking liquor; after Mr. Jones had had his say the man said to him, "Mr. Jones, he said, "listen, if you want to get into an argument with me, start a question that has got two sides to it." If I wanted to argue a question I would want a question that had two sides to it; I don't like to have a question that is all one-sided. Now, what are the arguments that have been presented in favor of par collections? The strongest one is that it would be a good thing. That is a mighty hard thing to answer; it would be a good thing for me to have your money—it would be good for me, but how about you? Now, I just want to leave this question with you. I just have said what I have in order to find out what the sentiment is. As you know, we went up to Congress and we amended the law; we got it just as we wanted it; we got 240 votes in the House to 118, and the safest majority in the Senate. The President wrote a message to Congress just at the time we were going into the war and asked them to leave it alone, as a war measure. And then came the amendment which leaves the whole question in doubt. So, the Board has interpreted it against us, so now there are two plans left us; one, is to go to Congress, every one of you become active and get the law amended; the other is to ask the courts to interpret the amendment we have got. Now I hope the discussion here this afternoon will bring out your judgment in the matter.

There is just one thing that I overlooked; that it is said there are some small country banks—isolated—who have charged unreasonable rates. Now, that is true. But, you know the distinguished Comptroller of the Currency found in looking over the country some banks who were charging exorbitant interest rates; but there doesn't happen to be anybody insisting that we do away with interest. Do you know why? Because that protects everybody. You know we have had some dishonest men in Congress, but there hasn't been anybody suggesting that we do away with Congress—though it might be a good idea.

MR. JOHNSON: (Louisiana) I believe that I represent correctly the sentiments of ninety-five per cent. of the state banks of Louisiana when I say that they believe—or, we believe that the interpretation of the Federal Reserve Board regarding par collections is a very unfair and autocratic one. We believe that the matter of exchange charged is a reasonable charge; we believe that it is fair that a bank; like any other service of the people, should be paid for the service rendered, and the banks in Louisiana are ready to take some united action looking to the amendment of the par collection section of the Federal Reserve Act, paragraph 13 of Section 16. We believe that the American Bankers Association and marine banks of the country correctly represented this subject when their committee of twenty-five—



there was a congress of all the banks all over the country—said that a reasonable charge should be allowed for the services. We believe that another substitute should have been passed, and would have been passed, except for the unfair and arbitrary big stick work. And I believe now that it is time for the state banks, especially the small ones,—and I believe that the larger banks will join us in this movement,—to organize and start some effective work to produce an amendment and settle this exchange question upon a fair and right basis. It is true that we became much discouraged in our own district because the Federal reserve bank at Dallas told us that we have no option and that if we don't care to remit items drawn on us at par we will have the privilege of paying those checks over the counter, either through the express company or the post office, or their company agents that will be put in our town. We believe that is wrong, and we believe that we ought to have the endorsement of the State Bank Section of this Convention in producing some legislation or some registration that will lead to a change in the situation.

MR. PHILLIPS: (Illinois) I didn't expect to talk on this subject, but perhaps it would be opportune to tell you some of my own experiences. I happen to be one of the little fellows, too, in the little country town. About a year ago, or possibly a year and a half ago, we were advised very pointedly that if we failed to remit at par to the Federal Reserve Bank in Chicago we, too, would furnish the money to the express company, and we could take our choice. It stirred the fighting blood in me, and I immediately sat down to the typewriter—I am my own stenographer, by the way—and wrote to my friend, Governor McDougall—he is my personal friend—that we remitted to them exactly the same as we did to any other bank, and told him that we would wait—that we would continue to do that until he put his word in accordance with his letter. He condemned the thing that they had proposed to do as being coercion of the Kaiser type. And that the last I ever heard of it. About six months afterwards I had the privilege of sitting in a hotel in Chicago with Governor McDougall, and he said he hadn't seen the letter. I presume, however, that the clerk that signed it never took it to the Governor. But the Governor had a hearty laugh over it just the same. Now, I agree with the gentleman that said he thinks the Federal Reserve Act is the greatest legislation ever passed in this country, and I believe it is. It was the life-saver of the world during the last few years, and I hope and trust and believe that the time will come when every bank in the United States will belong to the system. Now, I don't know what the remedy is; I don't know the way. I have spent some time thinking on the subject, and I believe we can arrive at some solution of this problem. It does seem to me, that possibly laws could be enacted wherein the Comptroller of the Currency would not meddle in our affairs any

more than it was necessary, and laws might be enacted wherein the just earnings on the money that we have deposited not only in the state banks, but in the national banks as well, should go back to the people from whence the earnings of that money came, in the way of interest payments on their deposits and on their stock. I believe it would be fairer to turn it back to you and me on our proportion of the money that they have had the use of rather than to send it to Washington to go into the Treasury of the United States, and I believe that they will solve the problem along those lines, because it is an injustice to take our money, or the money of the National Banks, and not pay any interest on their daily balances. I believe that somebody has got to make a noise, and if we make that noise loud enough I think it will be worked out in Washington sooner or later.

MR. COOK (Mississippi): I suppose I represent the smallest bank here. I know I am one of the smallest men. I have always made a fight for small banks in our state association in the South. In Louisiana, Mississippi and Alabama our towns are from ten to fifteen miles apart, and those towns are composed of one or two merchants who have organized small banks for the convenience of the farmers to get their money and to sell their cotton; they have been running, to my certain knowledge, a great many of them, six, eight and ten years without paying one cent dividend. It takes all the little interest those banks get from deposits, which are very small, to pay the cashier a thousand or twelve hundred dollars a year to run that bank. And if you take that away from them you shut those banks up. I believe those citizens are just as much entitled to the convenience of a bank as the people on Washington Street. Now, I don't know what is the solution to this proposition, but I think we ought to have an expression from this Association to the authorities at Washington, to the Federal Reserve Board, to let those little institutions alone. They are not eligible to join anyway. Their capital stock isn't large enough, and they ought to be let alone; let them attend to their own business; quit antagonizing them.

MR. PORTER (Utah): I believe the question raised by the gentleman who has spoken in regard to state rights in relation to the Federal system should be pushed just a little bit further and taken up from the other angle. As a state supervisor of banks, I have failed to understand why it has been thought wise and practicable to parallel state supervision with the state banks belonging to the Federal reserve. In the first place, such an action or recommendation is based upon the assumption that the state supervision is not competent and not efficient, and is not of such character as to insure the safety incident to the extension of credit to the state banks by the Federal reserve institutions. Now, if that is the case, if I am right in stating that that is the assumption upon which this plan is based, then the situation is this:

that this Federal reserve system, with all its strength and with the reserves that are maintained for its stability, isn't able to protect itself against a state institution or the dangers involved in dealing with a state institution, which institution is dealing possibly at all times and under all conditions from the zero up to the maximum point, and with resources measured by the same scale. I know in our state—and I want to speak without any prejudice in the matter—we have received the greatest efforts from the Federal authorities. They have refrained from making any move of importance in relation to our banks without first consulting our department and they have asked us to take the initiative in each instance. In other words, they have taken their place in the background. Such a condition might produce harmony; but it is not to be thought that such a relation will always be maintained. Now, as we say, from the bankers' standpoint you can't serve two masters. From this standpoint there certainly cannot be two bosses or two supervisors such as we have at the present time, and it is apparent already that one department is passing the responsibility to the other, and we are afraid it may drop somewhere between them in the vacant space. I believe that there should be a movement on the part of the state banks in the direction stated by Mr. Macferran so that only in relation to that point of contact where the state institution touches the Federal institution; only in that respect and relating to that particular transaction should they have supervision; then the Federal authorities should make their examination and investigation; but, aside from that, unless the state institutions are something that have come into existence without merit and without warrant, and are being conducted without safety and security, this general supervision certainly has no place, no standing, logical or reasonable, in the administration of the affairs of state banks that do not belong to this Federal reserve system.

MR. SHELDON (Georgia): As a member of the Federal reserve system at present, following along the lines of Mr. Collins' remarks, it looks like there are two things left open for us, and also following along his statement that he had gotten the bill that we wanted through Congress and when construed by the Federal Reserve Board didn't get us just what we wanted, it looks like the next best thing is to get a test case made of it. And I would like to ask the question if there is not a fund in the American Bankers Association to cover the expense of any member or non-member who would be willing to take this up to the highest court. It seems to me that if we can't get it through legislation we had probably better have a test case made of it and take it up to the highest court to determine what is the true construction of that Section 13.

THE CHAIRMAN: Do you wish to make an answer to that question, Mr. Collins?

MR. COLLINS: Yes. It would cost two or three thousand dollars to have the American Bankers Association's legal department take this matter into the courts. The expense would be very small, and the only thing that would be necessary would be just to have the Association order such an appropriation and it might be that the matter could be handled through a report of a committee of five asking for such an appropriation; probably they will ask for such an appropriation.

After some further discussion a motion was duly made, seconded and carried that the State Bank Section of the American Bankers Association go on record as opposing par remittances arbitrarily imposed by the Federal reserve bank, and then invite the other Sections of the A. B. A. to join with the State Bank Section in the work undertaken by the Committee of Five, then indorse the committee and the action they have taken, and, if necessary, request the expenditure of the funds of this Section in this work.

MR. JOHNSON: I would like to ask Mr. Collins if in his opinion the check clearing function is necessary to the reserve function of the Federal reserve bank?

MR. COLLINS: Let me tell you a story that I think will illustrate what I think about that: A fellow in a small town was moving down about six blocks away from where he lived, down the street, and he moved everything in a van except the grandfather's clock about this high, (indicating), and a cut glass vase belonging to his mother-in-law. She said to him, "Now, I will take the cut glass vase and you would better take the clock, because they will get broken if we put them in one of the vans." So he caught the clock up in his arms and staggered out on the front porch like a blind horse and managed to get down the walk, and started down the street. About half way he set the clock down to rest. As he was standing there wiping his forehead and catching his breath there was a drunken fellow came by and passed him and turned around and looked at him and looked at the clock and then he said, "Why in the hell don't you get a watch?" Now, there is such a thing as having time, but if you have got to take your grandfather's clock around with you it is a good deal of trouble.

Chairman D. M. Armstrong presented the report of the Nominating Committee as follows:

For President: J. W. Butler, Vice-President First Guaranty State Bank, Clifton, Texas.

For Vice-President: E. C. McDougal, President Bank of Buffalo, Buffalo, New York.

Executive Committee: Term expiring 1922—G. E. Bowerman, Vice-President Fremont County Bank, St. Anthony, Idaho, and H. A. McCauley, President Sapulpa State Bank, Sapulpa, Oklahoma. Term expiring 1920—George W. Rogers, Vice-President American Bank of Com-

merce, Little Rock, Arkansas—(in place of H. A. Moehlenpah, President Citizens Bank, Clinton, Wisconsin, who has been elected to the Federal Reserve Board at Washington.)

The report of the Committee was unanimously adopted and the officers thus nominated duly elected accordingly.

Chairman R. S. Hecht presented the following report of the Committee on Resolutions:

*"Whereas St. Louis has extended to the bankers of the United States through its invitations to the American Bankers Association the splendid hospitality of its generous citizens and of its bankers, who in their leadership rank with the foremost of their kind.*

*"Whereas we are thoroughly enjoying every moment of our stay in their hospitable midst;*

*"Be It Resolved that we the members of the State Bank Section of the American Bankers Association, in convention assembled, sincerely thank the citizens, business men and bankers of St. Louis for the inspiring and profitable convention and warm-hearted hospitality."*

Resolutions commending the outgoing officers for their faithfulness were also adopted.

*"Whereas, many of the state banks of the United States eligible to membership in the Federal reserve system have because of their desire to support the government's undertaking, to in a greater measure unify the banking system of our country, joined the Federal reserve system, and have thus put themselves under the supervision of the Federal Government;*

*"Therefore, Be It Resolved, in the distribution of government deposits there be made no distinction between such state bank members of the Federal reserve system and the banks operating under a national charter.*

*"Be It Further Resolved, that a copy of these resolutions be duly certified by our secretary and forwarded to the proper governmental agencies, and that our officers be instructed and charged with the duty of bringing about this much-deserved equality of treatment.*

On motion duly seconded and carried the report of the Committee on Resolutions was adopted by a unanimous vote.

PRESIDENT HAZLEWOOD: It is now my great pleasure, gentlemen, to introduce to you the new President of your section, a man who has been associated with us from the very start of the movement; a man who comes from the biggest state in the Union, and he is one of the biggest men in the biggest state in the Union. I take pleasure in introducing to you Mr. J. W. Butler, of Clinton, Texas.

**MR. BUTLER:** Gentlemen, I am deeply grateful to you for the expression of your friendliness and esteem and confidence, and I shall wish it during the year that you will feel free, very free, to write to us when you think we can be of service. I really invite it, and earnestly ask your co-operation and your advice and counsel.

There being no further business, the meeting adjourned.

## MEETING EXTRAORDINARY

Wednesday Evening, October 1, 1919

The subject of "Model State Banking Laws" was considered at a meeting extraordinary held in the ballroom of the Statler Hotel on Wednesday evening, October 1. E. C. McDougal, Chairman of the State Legislative Committee of the State Bank Section, presided, and representatives of other sections of the American Bankers Association participated in the proceedings. Discussion was led by Hon. George I. Skinner, Superintendent of Banks of the State of New York, and among other speakers were several prominent state banking supervisors and representative state bankers from various sections of the country.

**CHAIRMAN McDOUGAL:** This meeting is called to listen to addresses and a discussion which will be led by Superintendent Skinner, Superintendent of Banks of the State of New York, and it is also to be hoped that other bank superintendents, supervisors or commissioners, as their titles happen to be, will also take part in this discussion. We will waste no time explaining further the object of the meeting, but we will ask Superintendent Skinner to take the floor. I take great pleasure in introducing to you the Hon. George Skinner, Superintendent of Banks of the State of New York.

## MODEL STATE BANKING LAWS

**HON. GEORGE I. SKINNER**

It is almost needless to say that there are no model state banking laws, so that, in one sense, the subject of this discussion is non-existent.

The reasons are apparent. Under fixed conditions it would be impossible for human genius to devise a system of banking under which our banking institutions could be the perfect servants of business and commerce, which they should be in order to fully develop all the varied resources of the communities in which they are located and at the same time absolutely protect the interests of depositors whose funds are placed by them at the disposal of our ship-builders, our manufacturers, merchants and farmers. Even if the human mind could conceive so perfect a statute, language is such an imperfect instrument of thought that even where the utmost care has been exercised by legislators and revisers of banking laws, ambiguity and doubt frequently result from the phraseology used and the intent of the draftsman becomes subject to the adjudication of the courts.

Not only are conditions in different states so varied that a statute that is almost perfectly adapted to the needs of one state would not fully respond to the needs of another, but even in the same state conditions change from time to time. There is constant growth and development and there must be constant amendments to our banking laws to meet changing conditions. It is, in my judgment, impossible to create one uniform, hide-bound banking law which will provide for all the needs of all the different communities embraced in so wide a territory as the United States of America.

Local laws can best meet local conditions. If we are to have continuous progress there must be more or less elasticity; and the wonderful development of state banking institutions,—notwithstanding the great system of commercial banking created by the National Bank Act, and the great advantages conferred from time to time upon national banks by Federal legislation,—not to emphasize the hostility to them sometimes shown by Federal officials,—is due to that fact. While perfection is unattainable, we can make progress by continuous efforts toward that goal, and if this discussion shall result in increasing the usefulness of state banking institutions in a single state, it will not have been in vain.

The provisions embodied in the banking laws of the various states are so manifold and various that it would be useless to attempt in the time allotted to discuss any but the most salient features. They may, however, be subdivided into two general classes,—provisions designed to protect depositors, including provisions for a supervision and restrictions upon the powers of banking institutions, and those which confer such powers upon them as are deemed necessary to broaden their functions and usefulness and to enable them to play their part in promoting commerce, manufacturing, mining, agriculture and the general business of the country; for banking is the foundation upon which the entire superstructure of the business life of the nation is erected.

In a larger sense than ever before, the happiness and prosperity of

the human race, the development of society and the preservation of civilization are dependent upon the extent to which our bankers meet the demands made upon them. The manner in which the wealth of the world is distributed among different classes of our population is becoming more and more important and adequate protection must be afforded to those who are willing to perform their part of the manual as well as the mental labor of the world for the purpose of maintaining themselves and their families in comfort during old age and in sickness as well as in the days of their strength. Their savings as well as their muscles and their minds are employed in the world's business and the belief that the laborer and the capitalist,—and every saver is a capitalist,—should share equitably in the results of their efforts and be assured, under all ordinary conditions, of happy and peaceful lives is a kind of socialism to which we can all subscribe.

It seems to have been demonstrated in this country that supervision of banking institutions is desirable, although there is still much discussion as to the powers that should be conferred upon supervisory officers.

In my judgment, the desirability of supervision being admitted, the powers conferred upon the commissioner or superintendent of banks should be very broad and he should be given a very wide discretion. In making this statement I have no regard for the peace and comfort of the supervising officer, for the exercise of discretion is a constant source of vexation and annoyance. I speak from experience, for in the banking law of the state of New York, which is largely the product of the best thought of our most intelligent bankers, powers are conferred upon the Superintendent of Banks which makes him almost an autocrat. Like the ancient seignors, he has the power of life and death. No corporation can be authorized to transact a banking business under the state law without his approval, and he is given authority to close an institution when, in his judgment, it is unsafe and it would be inexpedient for it to continue in business. A state banking institution cannot change its location or open a branch office without his consent. He is given power to liquidate an institution when closed, and I believe that our experience in our state justifies the wisdom of these provisions.

If free banking, as it is sometimes termed, were permitted without any check except compliance with certain provisions of statute law, numerous weak institutions would be created, some of which would be managed by incompetent and dishonest officers to a greater extent than is now possible. There would be undue competition and failure and the losses to depositors would result in bringing the entire system of banking into disrepute. Thrift and economy would be discouraged and the bolshevist spirit encouraged.

I have never known a time at which the exercise of discretion with



reference to the creation of new banking institutions was so necessary as the present. Never before have so many men seemed to be desirous of engaging in the banking business and were it not for the discretion given to the Superintendent of Banks, there would also be, in my judgment, an undue extension of branch banking in the cities where it is authorized.

After ten years' experience, I think I am justified in stating that the liquidation of closed institutions by the Superintendent of Banks has been fully justified. Receivers' fees have been eliminated and the general work of liquidation is conducted upon an economical and business basis. The attorney's fees which have sometimes been the subject of criticism have, I think, always compared favorably with those allowed in bankruptcy of receivership proceedings, and as the result of experience and constant effort have been greatly reduced in recent years. On the whole, I have no doubt that there will be a great saving to the unfortunate depositors with failed institutions in all states where this system is adopted.

I trust you will pardon me for referring so frequently to the law of my own state as it is the one with which I am most familiar and with reference to which experience best qualifies me to speak.

There is one power conferred upon the Commissioner of Banks in some of the western states that I really believe might well be inserted in any model state banking law, especially if the state has mutual savings institutions, although it is a provision which, owing to conditions, is not fully effective and must certainly add greatly to the problems and perplexities of supervising officers. I refer to the power to fix the maximum rate of interest which a state banking institution may pay to depositors. In order to make this power as beneficial as possible, it would, of course, be necessary that the same power be conferred upon and exercised by the Comptroller of the Currency with reference to national banks and just and harmonious action taken. It is possible that in the case of stock corporations, the necessity of preserving the good will of stockholders will, in some cases, serve as something of a check upon officers who are so ambitious to build up a large deposit liability that they will pay excessive rates of interest and who will, almost invariably and as a necessary consequence, consider the return upon proposed investments rather than their safety. In no case would it be necessary to make rulings upon interest rates applicable to an entire state and in few cases would it be essential to make a ruling applicable to an entire community. In most cases, undue competition for deposits is forced upon the banking institutions of a particular city by one of the weaker institutions, and I have seen so much of the evils attendant upon the practice that I believe that this power might properly be conferred upon the supervising officer with reference to stock corporations and that it should be conferred upon him with reference to mutual corporations.

I may be pardoned for stating that in the Capital city of the State of New York three mutual savings banks recently raised their dividend rates to four and one-half per cent. per annum. The action was first taken by a single small institution without consultation or notice and was precipitately followed by two other institutions for fear of the loss of deposits.

At the time of the revision of the banking law of New York State, it was first proposed by the bankers upon the commission to provide that a Superintendent of Banks, when appointed, should serve for life, subject, of course, to the usual power of removal for cause or impeachment. While I myself believe that the term of office is important, I do not think that any superintendent should be appointed for life. Those who advocated this change believed that it would remove the office from any danger of political influence or control. I fear, however, that even if such extension of the term of office of a supervising officer were politically possible, it would have a tendency to make him too autocratic or bureaucratic, less energetic and less constantly impressed with that sense of accountability which should be ever present in the mind of every public official. On the other hand, if the term of office is brief, unless the incumbent has not only had previous knowledge of banking and banking law, but experience as an executive officer, as well, he would hardly have time to acquaint himself with the conditions of the institutions under his supervision and accustom himself to the duties of his office before his term expired. In my judgment, the term finally recommended by the commission is a just compromise. That term was five years. In a term of that duration the incumbent would have ample time in which to demonstrate his ability and to perform useful service to the state. If he proved himself capable and was content to remain, he might be re-appointed even if there were a change in the partisan control of the state government and he would almost certainly be retained in office if the same party remained in power. While public officials are frequently unjustly criticised by sensational newspapers and are sometimes the subject of baseless and even scandalous criticism, real public service is more often appreciated by men prominent in public life than is generally supposed. I believe that there are at least two supervisors of state banking institutions who are now holding office by virtue of appointment by a Governor of a different political faith. There have been several such cases in the past.

In some states the Superintendent or Commissioner of Banks has other duties and in at least one of the states which has at present a most efficient system of supervision, it has recently been proposed as a matter of economy to combine the office of Superintendent of Banks with the office of Superintendent of Insurance. I believe that even in the smallest state, the duties and responsibilities of the Superin-

tendent or Commissioner of Banks are so great that he should devote all of his time to them.

The most capable Superintendent or Commissioner of Banks, however, could not perform his duties properly unless he was able to command the service of honest, capable and efficient examiners. It is only by their efforts that he can be fully informed as to the condition of institutions under his supervision and be prepared to meet any emergencies that may arise. They are his eyes and ears and without proper reports from them he would be almost as helpless as a blind man seeking to traverse crowded streets. In the present state of public opinion, the reputation of the supervising officer as well as the safety and security of depositors with state banking institutions is so entirely dependent upon their work that the method of their appointment, their compensation and terms of office are most important.

Notwithstanding the confidential relations that must exist between the examiners and the head of the department and the elements of confidence and personal loyalty which are so essential, I do not believe that the Superintendent or Commissioner of Banks should be given the sole power of appointment, not so much on account of fear of personal or political favoritism as the fact that he might be easily misled with reference to the ability as accountants of his friends and acquaintances and that in the larger states he would not have a sufficient acquaintance with men who would be capable of filling the office and who would accept appointment, to enable him to gather about himself a competent force by personal selection. In view of the fact of his great dependence upon his examiners and the necessity of trusting them absolutely, I have sometimes believed that a supervising officer should be given the power to nominate candidates for bank examiner who should, however, be given thorough examinations as to their educational qualifications and equipment by an entirely separate and independent body like the Civil Service Commission. It must be admitted that written examinations are of the greatest importance, although they do not indicate the personal qualifications and characteristics which are so essential in the work of a really successful bank examiner.

The system adopted in New York State, while not ideal, is, in my judgment, fairly satisfactory. Candidates for appointment as bank examiner are given a written examination by the Civil Service Commission to determine their educational qualifications and their ability as accountants. In addition, they are given oral examinations at which is usually present some representative of the department who may suggest questions, although he does not usually participate directly in the oral examination. The personality of each individual is brought out by the questions asked and the results of the "quiz," if it may be so termed, are made a part of his rating. As a result, the Superintendent of Banks, when making appointments from the eligible list,—

and under our practice he has the privilege of selecting any one of the first three upon that list,—has some previous information with reference to the mental characteristics of the candidates as well as their educational qualifications. Five years' banking experience, or its equivalent, is a pre-requisite to the examination and the work of the American Institute of Banking has been of great service in preparing candidates not only for the examinations but for their future work.

The term of office is unlimited, although the Superintendent gives them special commissions and they are paid by the day when employed. A failure to issue commissions has been occasionally a means of discipline.

I believe that in one respect the practice in New York State may well serve as a model. The department is self-supporting;—that is, all the expense of the department are paid by the institutions under its supervision. Although paid, in the first instance out of the State Treasury, an assessment is levied once a year to pay the general expenses of the department and each institution pays for its own examinations. There is no limit to the time that may be spent upon an examination, if found necessary, or upon the number of examinations. All institutions subject to the supervision of the Superintendent of Banks must be examined at least once a year, and the banks, trust companies and private bankers at least once in each six months.

The payment of the expenses of the department by the institutions enables the Legislature to be somewhat more generous in its appropriations for the department than it would be at times, if the necessary sums were raised by general taxation; and the institutions are not only willing but desirous of paying such sums as are needed for efficient work. It is only proper, moreover, that an institution whose books are so kept or whose condition is such, that a long examination is necessary should pay the necessary cost rather than that the excessive expense should be assessed upon well conducted institutions.

Promotions or increases in the compensation of examiners after appointment should, in my judgment, be entirely within the discretion of the head of the department without interference from the Civil Service Commission or any outside authority. Only the Superintendent and his deputies can have accurate knowledge as to the character of the work performed by the examiners after appointment and make a fair adjustment of their compensation from the sums available.

Our examiners are paid by the day, while actually employed, and increases in the per diem allowance cannot be based solely upon length of service, if we are to retain even for a brief time the services of our most capable examiners. I ought, I think, to emphasise the fact that the bankers of the State of New York have been most urgent that ample appropriations for the work of the Department should be obtained and they have on occasion even offered to appoint committees

to wait upon the Legislature or the Governor to urge such appropriations.

The system outlined cannot be accommodated to the so-called "budget system," for our best examiners, if young, are constantly being taken from us as they become expert in certain lines, like foreign exchange, by the large institutions which can pay salaries far in excess of any which we can even yet contemplate. The work of examination has, moreover, increased so rapidly, owing to the great growth and increasing number of state banking institutions and the establishment of foreign branches, that no superintendent could foresee at the beginning of a year, even without regard to special emergencies, the exact amount of money or the exact number of examiners that might be required to complete the work. It has been possible for us, thus far, to obtain the appropriation of a lump sum from which the cost of examinations can be paid.

It should be borne in mind, moreover, that any examination is defective in which there is not a complete audit, and I believe that the laws of one state provide for a verification of liabilities as well as of assets. I think it will be found that most of the defalcations and frauds upon institutions, which have escaped detection by the bank examiners of the different states, have been as a result of the fact that there has been no verification of liabilities. In my own state we frequently make a partial verification of liabilities in such a way as not to excite the fears of depositors. Until the general public is sufficiently accustomed to the procedure so that inquiries by bank examiners with reference to balances in banks do not arouse suspicion and cause offense, the possible dangers of such inquiries as well as the immense amount of work involved will prevent a complete audit, although it would seem to me possible to require a more complete examination of liabilities than is now made in some of the smaller and less populous states. If the public were well informed as to the purpose, confidential inquiries with reference to their deposits with state institutions would invite confidence rather than cause unrest and possible runs.

There are other provisions designed to safeguard depositors which are more or less common to the banking laws of the different states. I refer to capital requirements, the double liability of shareholders, reserve requirements, limitations upon loans, sworn reports and various provisions with reference to bookkeeping and false entries.

These provisions are so numerous and so general that, with a few possible exceptions, they do not need discussion before this audience. Many of the requirements vary in different states and even in different localities in the same state. In our statute, the requirement as to capital is based upon the population of the place in which the institution is to be located. The Comptroller of the Currency has recently

suggested a different limitation, the deposits which an institution may receive being limited by the capital and surplus of the institution receiving them. Theoretically at least such a limitation is logical and, while I do not personally believe that it is necessary to have so low a maximum of proportionate deposits as was proposed, some limitation of this character may very well be considered. We have in New York State, even before the suggestion of the Comptroller, endeavored by various methods of persuasion to induce institutions to maintain a capital and surplus fairly proportionate to their deposits.

I am of the opinion that state banking institutions should, within proper limitations, be permitted to make loans directly upon real estate and to accept real estate collateral. The strictly commercial institutions located in large cities would not, even if permitted, desire to make many loans of this character, but in the smaller places and within a restricted territory such loans can be safely made and form a much better investment for local institutions than some of the bonds which they are so frequently induced to buy in large quantities and which fluctuate so greatly in value, or certain grades of commercial paper the value of which is entirely unknown to the officers of the bank investing in it. Such investments also prevent the piling up of unused money at low rates of interest in the larger banks.

While in New York State the needs of home-builders and of farmers are, to some extent, taken care of by institutions of a special character such as our mutual savings banks and savings and loan associations, I believe that state banking institutions, where they can with safety, should use the money deposited with them in the development of the communities in which they are located and the creation of a class of home-owners and the development of agriculture are of as much concern to the public at large and to the institutions themselves as general business needs.

I also believe that the provisions of our laws by which we permit larger loans, when they are secured by collateral of well known value or are made upon strictly business paper rather than upon the note of an individual, even with an accommodation endorsement, recognize a very proper distinction. Recent proposed amendments to the National Banking Act indicate that the reasoning that long ago prevailed in New York State is impressing itself upon the minds of the Federal legislators.

Our law also requires banking institutions, both stock and mutual, which receive general deposits to create from their earnings surplus or guaranty funds in addition to capital requirements, for the further protection of the general public. The effect of the creation of such funds in New York institutions has been admirable. An attempt is now being made in some states to employ this principle as the basis for a so-called guaranty of deposits. I dislike to introduce this subject at this time but, at a period in our banking history when the guaranty

of deposits exists in some states and the insertion of similar provisions in the Federal statute is being urged year after year, this subject cannot be wholly ignored in a discussion of Model Laws. We must be prepared, if opposed to the guarantee of deposits, to present unanswerable arguments against the proposition both to Congress and to our State Legislatures, for in the present state of the public mind the expression has as attractive a sound as the term "League of Nations" when defined as a league to prevent war and insure peace.

It will not be sufficient to demonstrate that the proposed procedure encourages reckless and improvident banking and that it penalizes well conducted institutions for the benefit of those who patronize badly managed institutions. There is always a great deal of sympathy for the unfortunate depositors with failed institutions. Even in so conservative a state as the State of New York, depositors with institutions that failed many years ago were authorized by a law passed last winter, notwithstanding the lapse of time, to present to the Court of Claims demands for full indemnification on account of the alleged negligence or improvident action of the Superintendent of Banks of that time and his examiners, although I believe the Superintendent of Banks did not, in the particular in which there has been the greatest complaint, use his own discretion, but only acted in an advisory capacity to the Supreme Court. I am using this fact as an illustration of the present tendency of public sentiment without attempting in any way to pass upon the merits or criticise the action of the Legislature. If, by any chance, the legislation proposed at Washington should become a law, what would be the effect upon state banking institutions? We know what might have been in its effect had it been passed during the war. Would it be necessary or advisable for state legislatures to enact similar legislation? Would it be practicable to permit state institutions under such circumstances to form voluntary associations for this purpose, thus enabling each such association to pass upon the qualifications of its members? An experiment of a similar character was tried in the State of New York some eighty years ago, when, in 1838, provision was made for so-called "Safety Fund Banks." That experiment was a failure and it seems to me that the most effective argument thus far presented against any attempt to ally the government and the banks of the country in an attempt to guarantee deposits with banking institutions of any class is that such attempts would, in all human probability, ultimately result either in repudiation of the implied promises of the government or in the reimbursement of depositors by general taxation. The subject is too big and has too many phases to admit of our attempting a complete elucidation of the various problems presented at this time. They should, however, be receiving very careful and very complete consideration, for the banks, from their recent cooperation with the government for patriotic purposes, are being

recognized more and more by people generally as performing semi-public duties and assuming semi-public responsibilities.

I have spent so much time in the consideration of statutory provisions designed to protect depositors that I shall have little opportunity to discuss the provisions with reference to the powers of the banking institutions from the bankers' point of view, which are of even greater importance; for, while it is the duty of our legislators to afford as complete protection to the depositors with financial institutions as is practicable, the standard of banking institutions in this country is becoming as high as in those countries where no supervision whatever is exercised. Banking has become a science, a profession, and if all bankers were wise, honest and followed approved banking methods, neither supervision nor restrictions and limitations would be necessary and every power could be conferred upon banking institutions which would help them to promote the business and commerce of the different states and of the nation.

My own state is one of the states in which some classes of banking institutions are, under certain limitations and conditions, authorized to open and maintain branch offices, and I have become an almost unwilling convert to the belief that the power to establish branch offices under certain restrictions should be given to banking institutions under such conditions as prevail with us. Those of you who live along the northern border are familiar with the history of branch banking in Canada, and I believe that experience in our state shows that in cities having a population of more than two hundred thousand, branch banking has justified itself by affording banking facilities in sections which could not otherwise be properly served, encouraging thrift among those who would not otherwise save, and making available for the business of the country, funds that might otherwise be hoarded. It is certainly better to have outlying sections of the large cities served by strong and solvent institutions through branch offices than by weak institutions which would necessarily be struggling for life, even if they continued to exist. The same reasoning would justify the establishment of branch offices in other municipalities within a limited territory, provided their establishment did not involve competition with small institutions or tend to create a monopoly in banking. In other words, I am inclined to the opinion that it would be for the public benefit if large institutions were authorized to establish branch offices in small places within twenty-five or fifty miles of the location of their main offices, provided that after the establishment of such branch offices there would be no competition with other institutions located in the same place. By this means banking facilities could be afforded in many small villages which are now without them and in which independent institutions of adequate size and strength cannot be maintained. It is evident, mover, that if this country is to make the most of its



opportunities in foreign trade and commerce, foreign branches of our institutions must be opened in order to afford the same support to our merchants and manufacturers and their customers as has been given to the merchants and manufacturers of European countries by their great international banks in the past. In this respect, as in some others, the bankers of New York have shown the way and our statutes and practice have served as a model for Federal legislation as well as for the legislation of other states.

The ordinary powers of banks are so numerous and so universally granted in substantially the same terms, that it is not necessary to enumerate them or comment upon them. It frequently occurs, however, that as the result of a change in general conditions or of special and local needs, the exercise of new powers is desirable. If they are general in their nature and can be safely exercised by institutions receiving deposits from the general public, they can, like recent provisions with reference to acceptances, be promptly incorporated in the statutes relating to commercial banking institutions. If, however, they are of such a character or so much in the nature of an experiment that the deposits of the general public should not be put at risk in their exercise, different types of corporations can be readily created by state legislation and only the funds of those who wish to adventure along these new lines put at hazard in the new business.

In my state we have no less than three different classes of corporations which have been created to relieve needy borrowers from the exactions of the loan sharks and, under somewhat different circumstances and conditions, render assistance to the worthy and industrious poor. It is needless to say to men who know that the return must be proportionate to the risk, that an investment in these corporations is made attractive and that, by one method or another, the moral hazard is quite fully determined. In the same manner when it became apparent that foreign trade and commerce afforded great opportunities of which ordinary banks and trust companies could not avail themselves with the same safety to their depositors as before, investment companies with a minimum capital of two million dollars were authorized by our banking law in order to occupy the new field, but were prohibited from receiving general deposits locally. At the same time, our banks and trust companies were authorized to invest in their shares. The capital stock of one of those corporations is held entirely by national banks, and I presume you have all noticed the recent efforts of the national government to promote and sustain foreign trade and commerce along similar and even broader lines. No system of department store banking that can be devised by Federal officials or Federal legislators can so surely and so quickly meet the special needs of days of reconstruction or respond to the constantly changing and constantly increasing requirements of the times.

With initiative and intelligence, proper co-operation and thorough organization, I believe that the future of banking in this country will be quite as largely in the hands of the men connected with state institutions as has been its past. You are the first to discern or foresee local needs and to adapt your business to local conditions and changes. You can most readily impress your views on state legislatures. Large bodies are proverbially slow and the Congress of the United States has so many important matters to consider that the special banking needs of Nevada or New York make comparatively little impression upon that body as a whole. I would be the last to assert that any state had a system of supervision superior to that under the direction of the Comptroller of the Currency or that deposits in state institutions were anywhere better safeguarded than in our great, strong and conservative national banks. I am ready to admit that the National Government can call to its service abler men than are available in similar capacities in any state; but, if in the future there is not created in any state an equally efficient system of supervision, if the interest of depositors is not equally well protected and local and special business needs even better served, it is the fault of the bankers of that state of the superintendent or commissioner and of its bank examiners. Take the knowledge of men and their character which is so essential in the work of examination and supervision and in the development of banking resources by proper legislation, and consider whether it is humanly possible for any official at Washington to have as accurate a knowledge of the bankers of the United States as any superintendent or commissioner can have of the bankers of his state, to say nothing of a comprehension of local conditions and requirements.

In perfecting your systems and procuring proper state legislation, you will have at all times the support of your brethren of the national banks, unless the legislation is discriminatory in its character, and I am sure we all believe in constructive and not destructive legislation. In New York State, at least, it has been utterly impossible to create any general class jealousies and in urging any proper legislation upon our state legislature for the benefit of state institutions and the development of the banking resources of the state through them, I have always confidently relied upon the support of the broad-minded men in control of our national banks.

Before us are some of the most tremendous problems of all time. The labor question, the high cost of living, housing problems, production, transportation and distribution, are all clamoring for immediate solution. Behind them all is the question of money,—the special instrument with the use of which you are so peculiarly familiar and in the distribution and employments of which you are so constantly and so continuously engaged. Consequently the final solution of all these problems rests to a large degree with you and your responsibilities are correspondingly great.

I reiterate that the future of banking in this country, the prosperity and the happiness of its people, aye, the future history of civilization itself are largely in your hands.

## DISCUSSION

**CHAIRMAN McDOUGAL:** We would very much like to have brought out some of the salient points of banking in other states than the State of New York. We have with us some of the Supervisors and Commissioners of Banks from other states. Now in regard to salient points in the State of New York, not in regard to the law, but with regard to our assets. The state banking institutions, the state-chartered banking institutions of New York have assets of nearly eight billions of dollars. It is not generally known we have here about two billions of dollars in excess of the assets of all the national banks of the State of New York, even not taking the National City Bank, the National Bank of Commerce, the State National and those big banks in New York city. The assets of the state-chartered institutions of the State of New York are almost eight billions of dollars, two billions in excess of the National banking institutions of the State of New York. Now there must be a reason for that. Yes, a natural growth. Now here is another salient point that is in our law that the superintendent did not mention. In cities of the first class no executive officer of a bank can borrow, even on government bond, he can't borrow a cent from his bank. That was objected to very strenuously by some.

Now, we would like very much to hear from some of the other bank supervisors and commissioners as to some of the salient points in their law, also some of the deficiencies in their state and their ideas as to how they ought to be remedied. There is one big question that has come up in my mind and that is one on which some of these commissioners could probably give us an idea as to their judgment. It is the question of efficiency of members. In our own institution, the law of the State of New York requires that in addition to the examination made by the Superintendent of Banks the directors themselves must make an examination of their own institution twice a year. The blanks calling for the information are prepared by the Superintendent of Banks and the directors must prepare information answering all the questions on those blanks. The question came up right away with us as to how they were going to enter the liabilities. Now I said that you will find that we are taking every precaution, that the men who keep our individual books have nothing to do with the pass books; that they are written up from the original deposit tickets, I believe from the individual books; and that in every way safeguards are thrown around them, and that system with those safeguards is being followed. Then the question came up as to whether we should disturb our cus-

tomers by calling in the pass books or not. Now, it would be very interesting to hear what the opinion of some of these bank Supervisors or Commissioners are, whether it is possible for them to satisfy themselves when they go into a bank that this system is so good that there is practically no chance of trouble in the liability account. Then, after we hear from them, we would like some discussion amongst the bankers assembled here as to the different points raised.

MR. RUSSELL: I have listened with a good deal of pleasure to Mr. Skinner's paper and I have got a good deal of inspiration from him as far as I can speak about my own side lights. What I would say about Illinois banking laws is this: At the session of the legislature before the last we passed a law, and the people voted on it, putting private banks out of existence. That law is in effect now. There are no errors in the law so we re-enacted this law, the identical law and are going to vote on it again this spring but without operating under it. Now as ever—we had to promise a good deal on account of there being a number of influential private bankers in the state. We have now a law that is altogether too liberal, but still in a great many points I think it measures up to the New York and other laws. After we get our new constitution,—we will probably have one this fall, at least we are going to vote on this question then,—we will have, I think, some new laws on this subject and the whole matter of banking will, as it should, be left to a later legislature and the laws we are going to have—that is, after this constitution has done its work, will be laws that, I think, will be real mottoes. I hope they will be largely copied after Mr. Skinner's laws in New York, because I know he is responsible very largely for their present system. Now I don't know that I should go into details because there are so many different points, but we have a number of ideas in our law that are being taken advantage of to a certain extent by small banks. In Illinois, private banks in unincorporated cities or villages with a population of less than 500, are allowed to organize with \$10,000 capital. While \$10,000 capital under the existing law would give them very little liberty in the way of loans, they are allowed to loan up to the extent of their capital in addition to that, providing they put up a bond which the Auditor who is Superintendent of Banks, will approve in an amount sufficient to cover any probable loss. This puts a burden on the Auditor, but it is not a heavy burden because these are only isolated cases. People in a small village of say 15,000 people, where there is a grain elevator or two have no way of getting their loans carried excepting they go to a larger town which is, in most instances, an inconvenience. Now in this way this burden can be carried very nicely by these former private banks. The private bank law is not operative now but comes into effective force on the first of January, 1921, and it is surprising to see the number of old-time private bankers that are coming in now. In fact we

have letters from the majority of those that are not in already indicating that when the law becomes effective on January 1, 1921 there will be very few private banks in Illinois. Now you have up the question of allowing private banks to do business and examine the private banks, but it is hard in that case to have a standard, and you hardly know what to go by. You pass on the securities that the bank has, but that is not the banker. The individual who composes it may owe a great deal of money outside of the bank. The bank may have a great deal of resources but the liabilities outside may be great and it is almost an endless job to get a really true statement of that bank. So I might state, although I was a private banker, that we have done away with private banks altogether and after the 1st of January, 1921, we will only have incorporated banks and Illinois will be what I call a banner state when it comes to incorporated banks, as I think we will beat you all. This is really, as I said before, quite a school for me and I have gotten a great deal from Mr. Skinner's paper. I only hope that this will be a real discussion and a number of good points will be brought out so we will all go away with a good deal more of knowledge on this subject than we had before.

MR. W. R. WILLIAMS (California): Mr. Chairman, Ladies and Gentlemen: I think in California we have features in our banking laws that are more or less unique and, I think, quite effective. We do not have private banking in California at all. All banking is conducted by capital stock corporations. The minimum capital is fixed by law, the initial capital according to the population of the place, and is increased according to the increase in the deposit liabilities. We have there what we call departmental banking in its true sense. One corporation may engage in all three classes of banking: commercial, savings and trust. When we speak of trust in California, it means that activity which is devoted wholly and alone to the execution of trusts. A trust company as such cannot take deposits at all as excess deposits that may be taken from other trustees or executors or bodies. In other words, they cannot receive any deposits except that those deposits in turn are trust deposits from some other trustee. The capital requirement for the commercial bank is ten per cent. In other words, \$100,000 capital in a commercial bank would entitle the commercial bank to a million dollars of deposits. That same ratio is required in savings banks initially, but that is permitted to decrease as the size of the bank increases until after forty million dollars is reached the increase is at the rate of one per cent. of the deposits received. Trust companies are permitted to charge and a bank is permitted to charge in the execution of trusts in a place of less than one hundred thousand population on a capital of \$100,000. That capital in turn is apportioned to what we call particular trusts and private trusts. Those two classes of trusts are kept separately so that the liability upon the

securities which are deposited, which is the entire capital invested in certain exclusive forms of securities and placed with the State Treasurer. Then as the trusts increase an increase of capital is required until it reaches a maximum of \$600,000. Branch banking or the opening or operation of branch offices is also permitted in California without limitation as to the location of the branch anywhere in the State of California. A bank is not permitted to operate a branch office in any other state, but a bank with a capital of one million dollars, a commercial bank, may, under certain conditions, and with the consent of the Superintendent of Banks, open a branch in a foreign country for the purpose of assisting in the promotion of foreign trade. No assignment of capital is required for branch offices, but a bank desiring to open a branch office must have in the principal place of business, a capital of at least \$25,000 more than the minimum required in that particular place. But for an additional branch in any other place the bank must have a capital for each branch equal to the amount of capital that would be required of a new institution. Then it must also increase its capital as its deposits and liabilities increase. I would like to say, for the benefit of some of those states where they may have more or less trouble in getting the kind of legislation that many of the states now have and particularly for the benefit of those states where modern up-to-date banking laws are desired but where there are groups of banks who believe that the modern banking law is going to interfere too much with their business and therefore do not assist as much as they should in securing such legislation, I want to urge upon you the fact that no bank, no good banker and no bank system in any state is ever injured by good banking laws, and it is easy to get good banking laws if the bankers will actually try to get them. In California we have had in operation for a number of years a very effective method, and I say also that I think the laws of California are equal in every respect to the laws of New York insofar as they extend their power of discretion and initial action. The powers conferred upon the Superintendent of Banks are like those in New York, most autocratic, and they have not worked to the disadvantage of the banks for the growth of the deposits of the business and the banking life speaks for itself. The method adopted there is that the California Bankers Association has in active and in constant operation a committee called the Legislating Committee that is an active committee and during the whole of the time between the legislative sessions they are receiving suggestions from the various bankers in the state, keeping abreast of Federal legislation and of the newer enactment in other states and of the possibilities of improving their own. They are also in constant co-operation with banking departments just prior to and during the session of each succeeding legislature. They very carefully go over the entire ground, and agree fully,—not always with—

out considerable discussion, but eventually they agree,—and they go unitedly to the legislature and ask for that which they desire; and they have never, during the time that that process has been followed, been refused anything that they have jointly asked for.

MR. PORTER (Utah): We are out there in the sage brush where we look over the banking laws of the other states and take what we consider the best features of them and then put in a few extras for good measure. So a few years ago we wiped off the map the private banks, all the private banks, and recently we have placed the office of the Banking Commissioner at the will of the government of the state. He can be removed without cause by the Chief Executive, and if there is any violation on the part of any bank to conform to the law or any fraction of the law and if this violation continues for the period of a certain number of days, the Banking Commissioner can be held at once for a misdemeanor and punished accordingly. Now that probably may be interesting as what we might consider a freak feature, but I would like to say a few words in reply to what Mr. Skinner said as to private banking and its features. It seems that in our state we have found a way of getting around that provision and in a round-the-corner process which appeared there was developed there a method that carries with it many of the merits of private banking; that can be supported by many of the arguments that are brought forward for private banking and yet get away from some of the objections, and the process is something like this: The larger banks in the larger cities of the state go out into the outlying districts, organize a bank there, taking say 40 per cent. of the stock, and giving the majority of the directors of the institution to the local people. Now the reason why they can only take 40 per cent. of the stock, the reason why they give the majority of the directors of that independent corporation to the local people is because of another provision of our law which prevents them from purchasing stock or holding stock in another banking institution except by the approval of the Commissioner. Now under the ruling in that state it has brought out this situation: They go there and they establish this bank in the remote district where an independent institution could not make its way. Then we have one of these tight, close-down excess laws, so this bank that holds say 40 per cent. of the stock and has given the majority of directors to that outlying institution really controls it, and from the fact that they are bankers people in the locality are willing to respond at once to the suggestions that they make. Thus they relieve them of the difficulty under the excess loan law by taking over those larger loans to the corresponding figure or to the limit of the bank that is protecting this outlying institution. So that the little bank in the out-of-the-way place is independent though apparently controlled, the majority of the directors there are from the little village or the small place, it is represented there in

its interests and has all the color of a local institution, yet at the same time the directing hand, the guiding influence of the institution is taking care of these difficulties that surround the little bank. Thus the greater banking problems are all taken over by the 40 per cent. owner holding bank, and it seems that just through incident and through working out a way around the law, they have developed there a process or a system which seems to accomplish what branch banks accomplish and yet they get away from any of the objections that are urged against the branch banks.

Now, in the matter of service fund, Mr. Skinner. There is quite an interest in our community in that matter, and we are likely to have written into our books suddenly a law that will be an extreme in that direction. Now, it has been suggested, in order to overcome this tendency to establish banks where people will not support them, to make this provision that in a new bank for one, two or three years nothing shall be taken from the net profits in the way of dividends to the stockholders and after that, they shall break fifty-fifty between their dividend account and the undivided profits which shall go over into surplus for a period of time or until such time that their surplus amounts to 50 per cent. of the capital. Now, the contention back of this suggestion is that it gets away from this idea of guaranty to which our people are opposed. There is a strong opposition out there to anything that looks like guaranty, and there is not any likelihood of anything happening along that line of the more radical nature that we have referred to in other lines. Now, I would like to get from the experience of those who are old in this work, and the states that are old in it an idea of what would be a reasonable and consistent arrangement as to the setting aside from the net earnings, for surplus, a per cent. of those earnings. Is there anything that can be worked out or developed that would be considered consistent in that matter?

CHAIRMAN McDUGAL: This is one of the most interesting meetings I have ever attended. Now, if there is anything more, let's have it quick because we do not want to drag it out, and we want to know everything there is in it. I want to tell you that in looking over this audience awhile ago I saw the Second Vice-President, who will undoubtedly be the First Vice-President of the American Bankers Association. I also saw in the audience the President of one of the most enterprising national banks. He has got no business to be here today. He ought to have been at the baseball game in Cincinnati, and he has come in here to listen. And this is a very interesting meeting. Now if those gentlemen want to know something about real banking, these national banking men, they must consider that they are shut out from asking questions. Is there any other remark, Bank Superintendents, Supervisors or Commissioners, is there not anything interesting to tell us? If so, let's have it right away quick and short, please, because we do not want to drag the meeting.



**A MEMBER:** What will become of the small banks if this branch bank theory is developed?

**CHAIRMAN McDUGAL:** I can not answer that. Some other gentleman will have to answer it.

**MR. KENT (New Jersey):** I regret Andrew J. Frame is not here to talk to us of branch banks. I recently received from him a little copy of an address he made. He has made a deep study of it, and it seems that the backwardness of Canada is the result of the branch banking there. I will tell you one instance. I noticed it myself some number of years ago, I was in Great Britain about the time when Lloyd George was in power. I was over there in a conference with an independent business man, director of a railway and director of a mutual savings bank, and he asked me about banking in the United States. I told him something about it. He told me in turn, that in Carlisle in the north of England the banks were independent until a few years ago but were now all becoming branches of the metropolitan banks. I asked a number of the business men some months or maybe a year or two afterwards how they liked the change. They generally said they did not like it, that they did not receive the attention they formerly had. Now as Commissioner Skinner was talking, he spoke of the inability of the officials in Washington to be in touch with local conditions in the various states in the same way. I want to say that the directors in the big cities can not be in close touch with local conditions in the various towns. I know from my experience in New Jersey that about two years ago a number of our large trust companies were desirous of establishing branches and some of them got through such a bill, but as soon as the bankers in the town and cities realized what it meant they fought it and it was finally killed in our legislature. They felt that these big institutions would open branches in their town and in that way freeze them out. I regret very much that Mr. Frame is not here that he could answer on this subject.

**MR. ALLEN W. JOHNSON (Schenectady, New York):** Mr. Skinner referred in his address to examinations and it is on that point that I wish to say a word regarding the examination of banks, especially of mutual savings banks which is the kind of bank of which I am a treasurer. Now every banker here knows that it takes all the employees of the bank, all the best hours of the day to make up the accounts. It is very plain that one or two or three commissions coming once a year could not go over the business day of a bank, making an examination of the business of a bank that it takes all the employees of one day to make up for that day only. Therefore it must necessarily be a brief examination that can be made by bank commissioners although they do their best under the circumstances and get their pay which the banking department gets from the bank and which they

are willing to give and all that, so that there is a wheel within a wheel in the examination of the bank. And we will take for instance the matter of interest. Bank examiners come in once a year and figure up how many securities you have, the total amount and the time they run, both of your bonds and mortgages. Then they figure the interest that you have accumulated, collected and outstanding, and they strike a balance; but suppose they don't come until say the month of October and your interest has been collected all during that time from the last October up to that time? The trustees of a mutual savings bank in the City of New York are supposed to examine twice a year and report. If their periods are January and July they make a report to the Banking Department for January and July of the interest and of all the other matters on which they are supposed to make a report, go over it all, and audit the trustees examiners. Now I would like to ask the gentlemen whether they know that their trustees made a thorough examination of their banks. There is a method of doing it, and our bank is getting up a blank, and that is my reason for stepping up here tonight: to let you know that our bank is making up a blank form by which our trustees can make an examination at that period of all the items and do it in that way that the bank examiners find it was impossible to do in the limit of time in which they examine a bank. And I will say this, that we intend to have it printed, and if anybody who is sufficiently interested to get that blank will write for it, in the course of about three weeks, we will send it to them. As a matter of little interest, they may be thinking of something of the same kind and might like to see what we are doing in that direction.

MR. SKINNER: I wanted to ask Mr. Johnson as a matter of interest to all of you, I think, as bearing on the question of liabilities whether his savings bank still publishes for the information of the depositors each year the amount that is due them at a certain day so that they can verify their accounts for themselves.

MR. JOHNSON: We have done that up to the last year every three years for the past twelve years,—that is giving the name, the balance of every depositor and the number of that depositor's book. This is published in the newspaper and is republished in a little book form. We have now forty-four thousand accounts and you can take that statement and you can balance our bank, yes, just as well as you could if you were there when the examiner was there balancing it. We skipped this last year because we could not get the banker to take hold of it, and we could not get sufficient clerk help to go over it, but we are expecting to do that this coming January. This will mean that we do it every three years and skip one year so it will be four years that we do that now. And if this other matter is of sufficient interest to you we will be glad to give it. Send your trustees that

printed blank. We think they will get to like it very much, explaining to the trustees just what method is necessary to give them an idea of the business of the bank up to the time that the examiner makes the examination. We have a provision in our law of the State of New York by which the trustee gets paid for any reasonable amount of work that he does to secure the safety of the depositor.

**CHAIRMAN McDOUGAL:** Mr. Johnson, may I also ask whether anybody has objected to having his balance published, have you had any complaints?

**MR. JOHNSON:** When we first put it out, the first year there were several that came in and inquired about it, whether their names were going to be entered there at any time or whether we told anybody that that was their book. I do not believe there were a dozen cases at that time, and we have about thirty thousand accounts.

**CHAIRMAN McDOUGAL:** You do not publish the name?

**MR. JOHNSON:** Only the number of the account, and since the time we have kept forty thousand accounts, there was not a single reference made in the last few years that we published it. We find that they all looked at it. We have questioned a good many and while they say, "Oh yes, I know there is such a thing as that," we found out that they do look and see if their balances correspond with the balances on their books; and it has been said by the American Bankers Association and by examiners that it is the only method of verifying liabilities that they know of absolutely. I believe Mr. Skinner will know about this; examiners tell me that there is in truth only about 80 per cent. at the most of pass books that are checked up where there has been an effort made by the examiners to get in the passbooks.

**MR. CARROLL (Kentucky):** It seems to me that a system of keeping the individual account by a perfect system of verifying the liabilities of the bank, if the bank examiners on his examination would simply have to mail out a statement like national banks to verify these liabilities.

**CHAIRMAN McDOUGAL:** We are traveling a little bit out of our subject but if there are any new ideas, we would want to hear these interesting things so the chair will be very glad to allow it. Is there anything else, any questions now, any one would like to ask? Are we through, gentlemen, are we through discussing all laws that we have? I presume the question of guaranteeing deposits would come under the topic that we are discussing. Does anybody want to discuss that now, want to express any opinion concerning it?

**MR. HUDDLESTON:** I have been pleased with the statement of Mr. Skinner of the method they pursue in New York of securing their commissioners and paying. I do not believe that there is any conscientious banker in the country who objects to having an efficient examiner

come into his place but the trouble in most cases is that we do not give the examiner help enough to enable him to strike a balance in the average bank and make a report to his Superintendent. I would like to ask Mr. Skinner about what percentage the average bank has to pay for the examination as made by the State of New York.

**MR. SKINNER:** Mr. Chairman, if you will notice my statement our examiners pass examinations given by the Civil Service Commission. They have to have five years banking experience or its equivalent. We have no trouble so far as to the bookkeeping accounting or as to the ability of the examiner, but I do know that our examinations are made at such a fixed price that we have no complaints from the institution. In fact, they sometimes complain because we do not spend more time. These last years we have had to make examinations a little more hurriedly and the banks have been insistent that we should do more work and make larger charges rather than less. In the way our examiners are appointed they are capable and we pay them pretty well, up to eighteen dollars a day and they are fond of comparing our charges with the charges that are made by certified public accountants whom they sometimes call in to help the directors make examinations. The percentage of cost to resources would vary somewhat in different institutions. I stated that there was no limit to the time that an examiner or examiners might spend in an institution. In a well-conducted institution with good books, the examination will be brief and the cost would be slight. As a matter of fact with one of the old national building and loan associations we put in three or four months in time and their percentage in that case was high. We had to close it ultimately. We found defalcations and one man committed suicide and we had to remain there longer to find out what we were after.

**CHAIRMAN McDUGAL:** I can answer your question partially. I know an institution that has about twenty-five million deposits and they were examined. The examiners were there practically a whole week,—there were several of them and the cost was four hundred and forty-one dollars, not including expenses. Superintendent Skinner is perfectly right when he says that we wish—we would be glad to pay more money,—most of the bankers that I have talked with really said our system is very economical. I would rather pay twice as much for an examination than what we are paying, but they have not got the men; and the business is growing so fast and they have been taking the men away from them so fast. Then the appropriation although paid by the banks, has to be fixed by the legislature in advance, and they have got to confine themselves in that appropriation as I understand Mr. Skinner.

**MR. SKINNER:** Yes, sir.

**CHAIRMAN McDOUGAL:** So that they do not let us pay them as much as we would like to pay, but their examinations are thorough because they spend the time where it is needed and those are the figures of an institution of over twenty-five millions in assets when they spent almost a week and the cost was four hundred and forty-one dollars for the examiners.

**A MEMBER:** The reason I ask that question, Mr. Chairman, has been prompted by the experience that we have had out in the State of Iowa. Out there they hang onto to their money, they are tightwads, and we have been trying for years to get them to loosen up so that the State Superintendent of Banking might be paid a proper salary. Less than a year ago a number of the easy marks in the State of Iowa had to donate from the company to the Bank Superintendent in order to keep his forces up. We had hoped in the next following meeting of the legislature that we would reimburse those bankers and pay them. But they did not do it. He did not get enough to pay for division help in making examinations as they should be made and I think the spirit of the bankers in the legislature in New York in giving the superintendents practically unlimited amount to handle the affairs of his office is very commendable. Now in connection with the corporation laws or the laws governing the state bank. In the safety of state institutions it has always seemed to me that there was one good bet that was overlooked. This was in Iowa and I suspect it was so in every other state outside of perhaps one or two distinct classes of corporations, after they are organized and get their charter, they go ahead and do anything they like without any restriction whatever. The only class of corporations that I know of that are restricted by the laws of the different states are these insurance companies, and it would seem to me when you are going to consider your banking laws or the safety of banks, that is one thing that should be taken into consideration, that is one element that will perhaps add a little safety to the banks operating in the different states. Under the Federal Reserve Act, every banking institution that contributes under the Federal Reserve Act, contributes a certain per cent. of its deposits and they are not entered. Would it not be fair if we are going to protect the public by requiring banks to deposit their reserve for a certain period of time without interest, to insist that that portion of the deposits should be exempt. Banks should be prohibited from paying interest on the proportion of their balances and deposits in the Federal reserve bank. In other words, if we are going to protect the public by putting in the surplus provision, that a certain amount of deposits shall be deposited in the Federal reserve bank without interest, the public should not receive interest on that portion of their deposits.

**CHAIRMAN McDOUGAL:** That I think, is national law. We are talk-

ing about state laws. Mr. Cousins of Wisconsin, we would like to hear from you.

MR. COUSINS: (Wisconsin): I enjoyed this discussion very much. I do not think I have anything to ask.

CHAIRMAN McDUGAL: Any other questions? Are there any other questions our national brothers would like to hear about, would like to ask. I heard Mr. Hinsch ask Mr. Huddleston some questions. One of the ex-presidents of the A. B. A. You probably know him without the announcement.

MR. C. A. HINSCH: I happen to be president of the Savings and Trust Company of Cincinnati, and we have just recently perfected an affiliation with the Union Trust company, so that I am deeply interested in the question of state banks.

CHAIRMAN McDUGAL: I suppose you own the Reds too.

MR. HINSCH: We are going to clean up the Cubs first. But it has been a matter of great interest to me to hear about the banking business, both national and state. Some fifteen years ago I was president of the Ohio Bankers Association, and had the courage to advocate at that time the creation of a State Superintendent of Banks. It was very unpopular at that time. I had the laws of Ohio codified by Mr. Wilson, one of our leading attorneys and his work formed the basis of the law that was finally passed in Ohio, three years after it was made. I preached that at the Ohio Convention and I feel that our Ohio law is just about as near perfect in its supervision of banks as it can be made. As I understand it, no new private bank can be started in Ohio, and all are now under the jurisdiction of the State Superintendent of Banks.

CHAIRMAN McDUGAL: Since I have heard about the good progress of the various states, I am making up my mind this earth is too perfect for bankers to live in. Is there anything else, any other question that anybody would like to ask? If not, this meeting stands adjourned. I thank you very much for your attention.

## APPENDIX

### AMENDMENTS TO CONSTITUTION AND BY-LAWS

*(Adopted at the Forty-fifth Annual Convention)*

The following amendments were adopted at the annual session of the General Convention at St. Louis, Mo., September 29-October 2, inclusive.

#### ASSISTANT TREASURER

Amend Article V, Section 9, by inserting the words in bold type, so that Section 9 as amended shall read as follows:

**SECTION 9.** The Executive Council, at the meeting provided for in Section 8 of this article, shall elect a General Secretary, a General Counsel and a Treasurer, who shall be co-ordinate officers; also elect one or more Assistant Secretaries, and shall appoint or authorize the appointment of such subordinate officers and other employees, including an Assistant Treasurer to be appointed by the Administrative Committee, as the Council may deem necessary, and at its discretion the Council may remove any or all such officers and employees from office or employment.

The term of office of the Treasurer shall begin on December first following date of his election by the Executive Council.

Amend Article V, Section 13, to read as follows (amendment consists in eliminating words in brackets and adding words in bold type):

**SECTION 13.** The Treasurer shall [collect all dues] receive and account for all moneys due to the Association, pay out money only upon vouchers countersigned and approved by the General Secretary and by the President of the Association or by a member of the Finance Committee of the Executive Council duly designated by that Committee for that purpose, and in a case of vouchers for expenses incurred by a Committee, or a Section, only when such vouchers shall have received the additional approval of the Chairman of such Committee or the Chairman of the Executive Committee of such Section, and

no moneys shall at any time be paid out by the Treasurer in excess of the appropriation made for any office, committee, section, or other purpose. He shall pay no appropriations in bulk but only upon proper vouchers representing service, expenses or cost of materials, and any balance of any appropriation not so withdrawn at end of the fiscal year shall revert to the general fund. The Assistant Treasurer shall collect all dues, turn over all receipts to the Treasurer and perform such other duties as may be assigned to him by the Treasurer, the Administrative Committee or the Finance Committee.

Amend Article V. Section 14 to read as follows (new matter indicated by bold type, matter omitted in brackets) :

SECTION 14. The General Secretary, Treasurer, Custodian of Securities, [and] Assistant Secretary and Assistant Treasurer shall each give to the American Bankers Association a bond in amount and form satisfactory to the Executive Council.

#### REPORT OF NOMINATING COMMITTEE AND INSTALLATION OF OFFICERS

Amend the concluding portion of Section 1 of Article X to read as follows (amendment consists of insertion of words in bold-face type) :

\* \* \* It shall be the duty of such Nominating Committee to meet as soon as practicable after the first adjournment of the General Convention assembled in annual session, next ensuing after their election, at the call of the General Secretary of the Association, and organize by the selection of a Chairman and secretary from their number. They shall recommend a candidate or candidates for President of the Association, and a candidate or candidates for First and Second Vice-Presidents of the Association, and the Nominating Committee shall make report of its recommendations so made to the General Convention, at any subsequent session of the General Convention, preferably on the morning of the last day of the Convention, but prior to the order fixed by program for the election of officers. The nominations or recommendations made by the Committee shall not exclude the name of any person otherwise nominated in the Convention, and under the regular order for the election of officers any delegate may place in nomination any qualified member for President or First or Second Vice-President, or for all. The regular order for the election of officers shall immediately follow the report of the Nominating Committee.

Amend Article III, Section 6, to read as follows (matter eliminated in brackets, new matter in bold face) :

SECTION 6. The General Convention at its annual session shall elect



a President of the Association and a First and Second Vice-President of the Association, each of whom shall have the qualifications of a delegate. The President and Vice-Presidents shall be installed in office (immediately after election) at the close of the last day's session of the General Convention and shall serve until the next succeeding election, and until their successors are duly installed in office, and shall not be eligible to immediate re-election to the same position after a full term of service.

The General Convention at its annual or any special session shall elect or appoint such other officers and employees as to the Convention shall seem fit, except as hereinafter otherwise provided.

Amend By-Law Eight by eliminating the words "election and" in the first and second lines thereof, so that said by law shall read as follows (words eliminated shown in brackets):

EIGHTH. The Association year shall begin after the order of [election and] installation of officers in the proceedings of each annual session of the General Convention, and shall continue until the same order in the proceedings of the annual session of the General Convention next thereafter succeeding.

#### VACANCY IN OFFICE OF STATE VICE-PRESIDENT

Amend Article IV, Section 3, of the Constitution by inserting after the first sentence thereof, a new sentence as follows:

Any vacancy in the office of State Vice-President in any state occasioned by death, resignation or other cause shall be filled for the unexpired term by appointment by the Administrative Committee.

#### ADDING SECOND VICE-PRESIDENT TO ADMINISTRATIVE COMMITTEE

Amend Article V, Section 15 (d), to read as follows (new matter in bold face type):

(d) The Executive Council, at its first meeting as aforesaid, shall elect from its membership, one person from the one-year class, one person from the two-year class, who with the President of the Association, the First and Second Vice-Presidents of the Association, the last living ex-President and the Presidents of the National Bank Section, State Bank Section, Savings Bank Section and Trust Company Section, shall constitute the Administrative Committee, and whose membership shall expire with their membership in the Council, and annually thereafter, shall elect one person from the two-year class, to fill the vacancy occasioned by the expiration of term. Any vacancy occurring by death, resignation, or other cause shall be filled by election from the same class for the unexpired term.

**ENLARGEMENT OF FEDERAL AND STATE LEGISLATIVE COUNCILS**

Amend Article V, Section 15 (aa), to read as follows (new matter in bold type; matter omitted in brackets):

A State Legislative Council is hereby created which shall consist of (1) the members of the Committee on State Legislation, (2) one member of the Executive Council from each state other than those which have a member of the Committee on State Legislation, or an ex-member from such state when suggested by a member or members of the Executive Council from such state, to be elected by the Executive Council annually at its first meeting after final adjournment of the General Convention, (3) the Presidents and first Vice-Presidents of the Sections and (4) the Vice-Presidents of the Association and of the Trust Company, Savings Bank, National Bank and State Bank Sections in each state [one member of the Association in each state which has no Executive Council member to be appointed by the chairman of the Committee on State Legislation]. The chairman of the Committee on State Legislation shall be chairman of the State Legislative Council. In each state the elective Executive Council member of the State Legislative Council, or where there is no such member, the State Vice-President of the American Bankers Association shall be chairman of a sub-committee to be composed of the members of the State Legislative Council in such state and such other members as the state chairman shall appoint. Elective or appointive membership on the State Legislative Council shall expire at the time of the annual election of new members thereof, but such members shall be eligible for immediate re-election or reappointment. Any vacancy caused by death, resignation or other cause shall be filled by appointment by the chairman of the Committee on State Legislation of any eligible member.

Amend Article V, Section 15 (bb), to read as follows (new matter in bold face; matter omitted in brackets):

A Federal Legislative Council is hereby created which shall consist of (1) the members of the Committee on Federal Legislation, (2) one member of the Executive Council from each state other than those which have a member on the Committee on Federal Legislation, or an ex-member from such state when suggested by a member or members of the Executive Council from such state, to be elected by the Executive Council annually at its first meeting after final adjournment of the General Convention, (3) the presidents and first vice-presidents of the sections and (4) the vice-presidents of the Association and of the Trust Company, Savings Bank, National Bank and State Bank Sections in each state [one member of the Association in each

state which has no Executive Council member to be appointed by the Chairman of the Committee on Federal Legislation]. The Chairman of the Committee on Federal Legislation shall be Chairman of the Federal Legislative Council. In each state, the elective Executive Council member of the Federal Legislative Council, or where there is no such member, the State Vice-President of the American Bankers Association shall be chairman of a sub-committee to be composed of the members of the Federal Legislative Council in such state and such other members as the state chairman shall appoint. Elective or appointive membership on the Federal Legislative Council shall expire at the time of the annual election of new members thereof, but such members shall be eligible for immediate re-election or re-appointment. Any vacancy caused by death, resignation or other cause shall be filled by appointment by the Chairman of the Committee on Federal Legislation of any eligible member.

Amend the second sentence of Section 16 (a), Article V, to read as follows (matter omitted in brackets) :

In case of legislative emergency arising between sessions of the General Convention whereby the welfare of the members might be injuriously affected by delay, the Committee shall urge the enactment of drafts of state statutes in the manner aforesaid upon approval of the Executive Council, upon approval by the members of the [State Legislative Council and other members of the] Executive Council by referendum vote as hereinafter provided.

Amend the last paragraph of Section 16 (aa), Article V, to read as follows (new matter in bold face type; matter omitted in brackets) :

In cases of legislative emergency arising between sessions of the General Convention or of the Executive Council, wherein it becomes necessary in the judgment of the Chairman of the Committee on State Legislation to immediately urge the enactment of drafts of proposed statutes through state organizations, or where any committee created by the Association or the Executive Council or any Section of the Association officially communicate such necessity to said Chairman, it shall become the duty of such said Chairman to submit such drafts and the action proposed thereon to the members [of the State Legislative Council and to all other members] of the Executive Council in such manner as he may deem best for their approval by referendum vote and the policy of the Association as to urging or otherwise the enactment of such proposed statutes shall be thereby determined by a majority of all such members who vote thereon within a reasonable time, subject, however, to change by the Executive Council or by the General Convention.

Amend the second sentence of Section 16 (b) of Article V, to read as follows (matter omitted in brackets) :

The Committee on Federal Legislation shall receive in charge all resolutions adopted by the General Convention declaring in favor of, or in opposition to, national legislation upon any subject, and shall by petition, memorial or other proper action further the purposes declared for in such resolution; and in case of legislative emergency arising between sessions of the General Convention, whereby serious and harmful results to the welfare generally of the Association membership might result from delay, the committee shall perform services as to resolutions of similar character adopted by the Executive Council at its sessions or in case of emergency in the interim between sessions of the Executive Council shall perform similar services upon resolutions adopted by members [of the Federal Legislative Council and other members] of the Executive Council upon referendum vote as hereinbefore provided.

Amend the last sentence of Section 16 (bb) of Article V, to read as follows (new matter in bold face type; matter omitted in brackets) :

In cases of legislative emergency arising between sessions of the General Convention or of the Executive Council, wherein it becomes necessary in the judgment of the Chairman of the Committee on Federal Legislation to immediately determine the policy of the Association in favor of, or in opposition to, national legislation upon any subject or where any committee created by the Association or the Executive Council or any section of the Association officially communicate such necessity to said Chairman, it shall become the duty of said Chairman to submit any such question of policy in form of a resolution to the members [of the Federal Legislative Council and to all other members] of the Executive Council in such manner as he may deem best for referendum vote and the policy of the Association shall be thereby determined by a majority of all such members who vote thereon within a reasonable time, subject, however, to change by the Executive Council or by the General Convention.

#### INDEPENDENT LEGISLATIVE ACTION BY SECTIONS

Amend By-Law Sixth by striking out the last paragraph thereof.

Amend Section 16 of Article V, of the Constitution by changing first sentence of sub-division (a) thereof to read as follows (new matter in bold type) :

(a) The Committee on State Legislation shall have in charge the consideration of state statutes affecting the powers, privileges and duties of the members of the Association except as hereinafter provided; also the subjects of uniformity of laws and commercial usage; and may for such purposes as occasion may arise recommend to the Executive Council and the General Convention drafts of proposed statutes for their approval, and upon such dual approval shall urge the enactment of such approved drafts through state organizations.

Further amend Section 16 by inserting at the close of sub-division (aa) thereof a new sub-division as follows:

(bb) Subjects of state legislation of special interest to any section may be presented to the Committee on State Legislation as hereinbefore provided; or such subjects may be urged independently by the State Legislative Committee of any Section, in which case any expense incurred by the Section shall be charged to the appropriation of the Section, and where a subject of special interest is thus independently urged by any Section, no action in such case shall be taken by the State Legislative Committee of the Association except under the instructions of the Association in convention assembled.

Further amend Section 16 by changing the first sentence of sub-division (b) thereof to read as follows (new matter in bold face type):

(b) The Committee on Federal Legislation shall have in charge the consideration of national statutes affecting the powers, privileges and duties of the members of the Association, except as hereinafter provided, and may for such purposes as occasion may arise recommend to the Executive Council and the General Convention drafts of proposed statutes for their approval and upon such dual approval shall urge the enactment by Congress of such approved drafts.

Further amend Section 16 by inserting at the close of sub-division (bb) thereof a new sub-division as follows:

(cc) Subjects of national legislation of special interest to any Section may be presented to the Committee on Federal Legislation as hereinbefore provided; or such subjects may be urged independently by the Federal Legislative Committee of any Section, in which case any expense incurred by the Section shall be charged to the appropriation of the Section; and where a subject of special interest is thus independently urged by any Section, no action in such case shall be taken by the Federal Legislative Committee of the Association except under the instructions of the Association in convention assembled.

## ANNUAL DUES OF MEMBERS

Amend By-Law Second to read as follows (matter eliminated in brackets, new matter in bold face type) :

SECOND. The annual dues of the members of this Association including annual subscriptions to its monthly "Journal" shall be \$10 for banks and trust companies having an aggregate capital and surplus of less than \$100,000 [~~\$20~~] **\$25** for banks and trust companies having an aggregate capital and surplus of \$100,000 and less than \$250,000; [~~\$25~~] **\$35** for banks and trust companies having an aggregate capital and surplus of \$250,000 and less than \$500,000; [~~\$40~~] **\$50** for banks and trust companies having an aggregate capital and surplus of \$500,000 and less than \$750,000; [~~\$50~~] **\$75** for banks and trust companies having an aggregate capital and surplus of \$750,000 and less than \$1,000,000; [~~\$65~~] **\$100** for banks and trust companies having an aggregate capital and surplus of \$1,000,000 and less than [~~\$5,000,000~~] **\$2,500,000**; [~~\$100~~] **\$150** for banks and trust companies having an aggregate capital and surplus of \$2,500,000 and less than \$5,000,000; **\$200** for banks and trust companies having an aggregate capital and surplus of \$5,000,000 and less than \$10,000,000 and **\$250** for banks and trust companies having an aggregate capital and surplus of \$10,000,000 and over. These rates shall apply to savings banks without capital according to their surplus or reserve fund and to private bankers and banking firms according to capital employed. Dues of associate members and branch banks having separate capital shall be in all respects the same as the foregoing. The annual dues of branch banks without separate capital, chapters of the American Institute of Banking and secretaries of state bankers' associations shall be \$10.

The annual dues of members who do not subscribe for the "Journal" shall in each case be \$2 less than the amounts hereabove specified.

## VOTING FOR MEMBERS OF EXECUTIVE COUNCIL

Amend By-Law Fourth by inserting in sub-division (b) thereof, immediately following the sentence:

"At such meeting the members of the American Bankers Association in attendance shall vote, in person only, from a list certified by the General Secretary of the Association to the Secretary of the State Bankers Association," the following: "and no delegate shall represent more than one member."

## FILLING VACANCIES IN EXECUTIVE COUNCIL

Amend the second sentence of Section 5 of Article V to read as follows (new matter in bold face type) :

Any vacancy in the elective membership occasioned by death, resignation or other cause shall be filled by the proper state, group or district as members of the Executive Council are chosen, but for the unexpired term only except that the Vice-President for each state shall have power to select a member to fill a vacancy on the Executive Council until the next regular meeting of the State Association and no person who shall have served a full term of three years as a member of the Executive Council shall be eligible to membership in the Executive Council for any term beginning with the expiration of such full term.

#### ELECTION OF MEMBERS OF PERMANENT COUNCIL COMMITTEES

Amend Section 15 of Article V, by adding at the end thereof the following:

In the election of members of the permanent Council committees, other than committees provided in sub-sections (aa) and (bb), the Executive Council shall have power, in its discretion and whenever in its judgment the best interests of the Association will be served thereby, to elect to membership on any such committees, members of the Executive Council irrespective of their terms of service on the Executive Council, provided that existing members of any such committees shall continue until the expiration of their membership on the Council and that the total number of members on any such committee shall not be increased by such discretionary method of election.

The Executive Council at the meeting provided for in Section 8 of this article shall designate one member of each of such committees to act as chairman thereof for the ensuing year.

Amend By-Law Fourth, paragraph (c) striking out the whole thereof and substituting the following:

(c) States not provided for in sub-division (a) wherein the total number of banks eligible for membership in the American Bankers Association is less than one hundred or does not exceed one hundred and thirty-three, shall each be entitled to one member of the Executive Council provided the members of the American Bankers Association in each such state are not less than seventy-five per cent. of the total number of banks in such state so eligible for membership. The election of such members of the Executive Council shall be in the same manner and be governed by the same rules of procedure as provided in sub-division (b). This amendment however shall not affect the tenure of office of present members of the Executive Council elected to represent particular groups and no such state can have more than one member of the Executive Council.

Amend Section 2, Article V, of the Constitution by striking from the second line thereof the words "Groups of States."

#### RESOLUTION

Resolved, That a Special Committee is hereby created in pursuance of Article VI, Section 2, to be known as the Public Relations Committee, which shall have in charge matters of publicity in which the Association is interested, including the relations between the Association, the public and other organizations. Its functions shall include the preparation of advertising forms and literature for the members and the rendering of such services for members in connection with advertising and publicity as may be proper and practicable. The Committee shall perform such other duties as may be imposed upon it from time to time by the Executive Council. The Committee shall be composed of seven members to be appointed by the President, subject to confirmation by the Administrative Committee, from the membership of the Association or from the membership of the Executive Council, or from both at his discretion.











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